BAY COUNTY RETIREMENT BOARD OF TRUSTEES AGENDA
TUESDAY, MARCH 8, 2011 @ 1:30 P.M.
FINANCE DEPARTMENT LARGE CONFERENCE ROOM
515 CENTER AVENUE - 7TH FLOOR
BAY CITY, MI 48708

PAGE				
	I.	CALL TO ORDER		
	II.	ROLL CALL		
	III.	MINUTES		
1 - 12		A.	FEBRUARY 8, 2011 MORNING MEETINIG	
13 - 22		B.	FEBRUARY 8, 2011 AFTERNOON MEETING	
	IV.	PUBLIC INPUT		
	V.	PETITIONS & COMMUNICATIONS		
		A.	**MACKAY SHIELDS - CONVERTIBLE BONDS**	
			1.	**BETH GRIPER AND RDWARD SILVERSTEIN**
23 - 26		B.	PORTFOLIO VALUE 1/1/10 THROUGH 3/2/11	
		C.	**MONEY MANAGERS ON WATCH**	
			1.	HOTCHKIS & WILEY, LETTER SENT 12/15/09 (NO REPORT)
			2.	LOOMIS & SAYLES, LETTER SENT 12/15/09 (NO REPORT)
			3.	DENVER INVESTMENTS LETTER SENT 12/15/09 (NO REPORT)
27 - 28			4.	MARVIN PALMER - LETTER SENT 6/1/2010 PORTFOLIO ENDING 1/31/11
			5.	WENTWORTH HAUSER & VIOLICH, LTR 9/14/10 (NO REPORT)
		D.	MONEY MANAGER REPORTS	
29 - 43			1.	BARING ASSET MANAGEMENT - JAN. UPDATE
			2.	BNY CONVERGEX GROUP - 1/31/2011
			3.	CORNERSTONE - 1/31/2011
			4.	DENVER INVESTMENTS - 1/31/2011
			5.	EAGLE ASSET MGMT - 1/31/10
			6.	HOTCHKIS AND WILEY- 1/31/2011
			7.	MACKAY SHIELDS - 1/31/11
		E.	NORTHERN TRUST	
44 - 48			1. SUMMARY EARNINGS 1/31/2011	
49		F.	REFUNDS/RETIREMENTS FOR FEBRUARY 2011	
		G.	CORRESPONDENCE	
50			1.	COPY OF WATCH LETTER SENT TO MARVIN AND PALMER ASSOCIATES

BAY COUNTY RETIREMENT BOARD OF TRUSTEES AGENDA
TUESDAY, MARCH 8, 2011 @ 1:30 P.M.
FINANCE DEPARTMENT LARGE CONFERENCE ROOM
515 CENTER AVENUE - 7TH FLOOR
BAY CITY, MI 48708

H. CORRESPONDENCE

51 .... 1. COPY OF DECEMBER 17, 2009 LETTER TO RICHARD POTTER REGARDING RENEWAL OF CONSULTING SERVICES AGREEMENT

I. NON DUTY DISABILITY

52 .... 1. KEITH REINHARDT TO BE EFFECTIVE APRIL 28, 2011

53 .... 2. LISA LAURIA TO BE EFFECTIVE MARCH 10, 2011

J. RETIREMENT INCENTIVE

54 - 67 .... 1. REPORT OF ACTUARIAL VALUATIONS COMPLETED BY GABRIEL ROEDER AND SMITH & COMPANY

VI. ANNOUNCEMENTS

A. NEXT REGULAR MEETING - TUESDAY, APRIL 12, 2011 @ 1:30 P.M. - **FINANCE DEPARTMENT LARGE CONFERENCE ROOM, 515 CENTER AVENUE - 7TH FLOOR, BAY CITY, MI 48708**

VII. UNFINISHED BUSINESS

VIII. NEW BUSINESS

IX. MISCELLANEOUS BUSINESS

68 .... A. CORRESPONDENCE FROM DANEAN WRIGHT REGARDING PURCHASE OF NEW RECORDING EQUIPMENT (ATTACHMENT TO BE PROVIDED AT THE MEETING)

X. ADJOURNMENT

MEETING OF THE RETIREMENT BOARD OF TRUSTEES ON : **February 8, 2011**
OVERVIEW AND INFORMATION FOR NEW TRUSTEES
IN THE PERSONNEL DEPT CONFERENCE ROOM, LOCATED AT 515 CENTER AVENUE, GROUND FLOOR, BAY CITY, MI 48708

MEETING CALLED TO ORDER BY: Chair Steve Gray at 9:35 a.m.

OTHERS PRESENT: RICK POTTER, DANEAN WRIGHT, JEFF BLACK
CRYSTAL HEBERT (ARRIVES AT 10:11 .A.M.) MR. COONAN LEAVES AT 10:00 A.M.

TRUSTEES PRESENT:	1	2	3	4	5	6	7	8	9	10	11	12
BRZEZINSKI	Y											
CARPENTER	Y											
COONAN	Y											
DEATON	Y											
GRAY	Y											
PELTIER	Y											
PETT	Y											
RYDER	M											
STARKWEATHER	S											

CODE:

M - MOVED; S - SUPPORTED; Y - YEA; N - NAY; A - ABSENT; E - EXCUSED

TRUSTEES PRESENT:	13	14	15	16	17	18	19	20	21	22	23	24
BRZEZINSKI												
CARPENTER												
COONAN												
DEATON												
GRAY												
PELTIER												
PETT												
RYDER												
STARKWEATHER												

CODE:
M - MOVED; S - SUPPORTED; Y - YEA; N - NAY; A - ABSENT; E - EXCUSED

The meeting, held in the Bay County Personnel Department Conference Room, Ground Floor, Bay County Building, 515 Center Avenue, Bay City, Michigan. was called to order by Chairman, Steve Gray at 9:35 A.M. Roll call was taken. All trustees are present.

This is a special meeting to provide an overview and information regarding investment policy to the new Trustees.

Mr. Gray called for public input. Seeing as there is none, he moved on to petitions and communications:

Present today is the Consultant to the Board, Mr. Rick Potter from Becker Burke and Associates, along with his associate, Jeff Black. Today they want to give a broad overview of all the aspects of managing pension fund investments. They will take a look at where we have been to-date, and the financial results and financial impact of the pension fund. We have twenty-five years of history here in terms of following data, so we will use that as a starting point. We will discuss where the trustees go from here to continue the success the fund has had. Becker Burke started with Bay County in 1994 and our first report had ten years of back history.

Mr Potter had a power point presentation to cover today's topics, along with a handout for everyone so he will be referring to certain pages. Twenty five years ago in 1984 the asset value of the fund was $24,693 million. In this period of time you have taken 87 million out of it, more than has gone into it. The fund has been very well funded over the years, you have had good investment results so there have been many years where the County has not had to make contributions to the fund, yet have been able to pay out benefits to retirees. The net amount of benefits that have been paid out is greater than the amount of money going in ($87 million dollars). In this period of time you earned almost $300 million on investments. That investment return has really come from income from bonds, dividends on stocks. We had market value gains of $189 million dollars. The fund has been oriented toward investing in equities. Much of this period has been very favorable to equity investments, so you benefitted as a fund from the high level of equity commitment that you had. An issue facing the trustees going forward is what is an appropriate level of equity commitment for the future. But in the period of time we are looking at, you made $190 million in market value appreciation. I was pleasantly surprised in looking at this because we have been through some very, very, rough times in the equity market. It is easy to be influenced by short time periods, but you can be assured that over the long run, this fund had a very, very successful investment record.

So what kind of rates of returns have produced those dollars for you? Overall, the Total Fund return in this twenty five year period is 10.5%

per year. Your actuarial assumption is 7.5%. That is one of the reasons the fund has been so well funded is that you produced returns in excess of your actuarial rate of return. ***When Gabriel Roeder comes and talks to you about your funding each year, one of the points they have always made is that this is one of the best funded pension funds in the State of Michigan.***

Looking at the terms that the total fund returned including stocks and bonds, looking at the individual components, the stock portion of the fund has earned 13.1% per year in this twenty five year time period. You have had both international and domestic equities here. The domestic portion has been 13.3% per year. What would be a relevant standard of comparison when you get out to 25 years data bases of other funds become less and less reliable in terms of their ability to provide meaningful comparisons. One meaningful comparison you could look at is what did the broad market do in equities in the 25 year time period. Well the broad gauge of equity market returns that many people use and I think it is a good one here, is the S&P 500. The S&P 500 earned 10.7% per year, so your domestic equities and equities overall outperformed the S&P 500 by a good margin. Where did that return come from? It comes from manager selection. This Board has always worked hard on making good choices on managers through the due diligence process. It also comes from investment manager diversification. Over time you have always had equity managers with different strategies so the markets being cyclical always operate in a fashion that when one style or strategy is in favor, another is out of favor. It is very hard to predict and to time those kinds of cycles so the most logical way to deal with that is by having a selection of different styles and strategies to lower your volatility and increase your return. In this twenty five year period of time, mid cap and smaller cap companies had better results than big companies. In general that is what you would expect because there is more risk involved in smaller companies. With a diversified approach in selecting investment managers it allows you to participate in those returns that are available in small cap and at the same time participate in a level of risk that is acceptable from a plan standpoint.

Trustee: could you explain domestic?

That means companies headquartered in the Unites States. The first figure under Equity includes both domestic and international.

The Fixed Income side of the fund is a broad indicator of return. The Bond Market is the Barclay's Aggregate Index. It has government bonds, mortgage bonds, and corporate bonds in it. It is analagous for the bond market to what the S&P 500 is to the stock market. In this 25 year period of time the Barclays Aggregate return has been 8.0% per year. Your overall fixed income return is 8.5% per year. This is where we get to the importance of investment policy. If 25 years ago the Trustees had said we don't like equities, we don't want to take any risk with these pension fund assets, we are going to invest 100 percent in bonds, that is what you would have earned. The total fund number would be 8.0 percent instead of 10.5%. We didn't do any calculations on the financial consequences of difference of 2.5% rate of return over twenty five years, but it would work out to be a lot money. The issue with equities is always the equity volatility that we have experienced and seen. Investment policy is an art, so to speak, of blending risk and return to get the outcome you would like to have. We have taken this 25 year time period and broken it up into five year increments because this 10.5% per year was not a smooth ride with 10.5% each year out of the 25 year time period, due to volatility. If you look at the first five year time period from 1985-1990 the Total Fund earned 9.7%, the next five years earned 14.2% per year, the next five years earned 16.0% per year, and most recently from 2000-2005 earned 5.0% per year, and from 2005-2010 the Total Fund earned 4.4% per year. This most recent five years has been the lowest total return five year period in this twenty five year period. Those results obviously came from equities. The percentage drops significantly from 1985 to 2010.

The other thing to look at is how well your fund did in comparison to the broad markets. By and large in each of the five years, with one exception, you have out performed the S&P 500. That is a measure of selection of investment managers and more importantly the diversification of the investment managers. In the Fixed Income side of the fund the Bond results for each of those five year time periods ranges from 9.4% in 1985-1990 to 6.5% in 2005-2010. You see much less volatility of return in Bonds than you do in Equities, but is important to remember that it is possible to lose money in bonds by bonds defaulting. The job of a money manager is to find bonds that are good quality credits and also to move out of bonds that begin to deteriorate. The other thing that can cause bonds to lose value is rising long term interest rates. As interest rates go up the market value of current bond holdings go down. Your bond managers need to be able to navigate that type of environment.

If you look at the years 1990-1995 the return of 11.2% in bonds, a component of that came from market value appreciation when long term interest rates were falling and by the same token you can have market depreciation as long term interest rates rise. If you look at what long term interest rates are right now, chances are it is hard to go a lot lower than we are now. They may stay static, but at some point in the future, there could be rising long term interest rates which would affect market value of bond holders, from your point of view in a negative sense.

Trustee: why would you buy bonds now?

Because of the stability they offer to a bond portfolio. If interest rates go up one percent, the market value of your holdings will probably go down five percent. There would be some offset from interest payments.

Say if you had three percent interest payments, five percent market value losses, that is a minus two percent. We have seen periods where equities have been down thirty percent in a year, so in that kind of a year a minus two percent looks much better than a minus thirty percent. So, that is the stability factor.

Trustee: But you have no up side potential. I can understand buying it but when interest drops to 2.5% or 3% your possibility of appreciation is nominal.

Mr. Potter: What a Bond Manager will do in the kind of environment we are in is invest in short bonds, bonds that mature in the not too distant future, i.e. money market or one-three year mortgages or one-three year bonds or mortgage bonds that are about to mature in two or three years. Then when they mature, they take the proceeds and invest them in new bonds where the interest rates are higher. If you are in low coupon bonds you are not stuck there forever and a bond management strategy will be continually rolling the proceeds of bonds into higher and higher coupon bonds as they become available on the market.

Some discussion regarding policy and investment strategies used by money managers. Loomis Sayles focuses on corporate bonds so they analyze credits. Their idea would be to get above average returns because they can buy higher yielding bonds that perhaps the market is misunderstanding which knocks their prices down lower than where they really should be. Baird is a manager focusing primarily on government bonds. When we do your performance evaluations you see exactly what you would expect over time. Loomis Sayles has done better for you in bonds because they have taken more risk than Baird. But when you look at individual slices of time, there have been times where Baird exceeded the rate of return of Loomis by a lot.

As we go through this, this is what you are dealing with from a policy standpoint, is where do you want to have your assets and what kind of diversification do you want to build into this.

Mr. Potter breaks down the pension team and how they work together:

1. Danean Wright, Retirement Administrator/Accountant
2. Board of Trustees of the fund. Over the years you have had hard working serious Trustees that have worked hard to produce the good results we have seen.
3. Investment Consultant, that's us, I have been the lead consultant, and you have met Jeff today.
4. The Actuary which is Gabriel Roeder Smith.
5. Money Managers (thirteen for BCERS and two for VEBA)
6. Custodian and Recordkeeper/Trustee which is Northern Trust Bank.

In your case Northern Trust holds the assets. The managers don't actually hold the assets themselves. What they have is investment authority over assets in an account at Northern Trust. That is very important to understand that there is a separation of management function. A Bernie Madoff situation could not occur here because you have an independent custodian whose job it is to verify. Northern's job is to make sure the assets are in place and to handle all the money transfers. So, if one of your money managers went to Northern and said, "that ten million treasury bond that is the account I manage, transfer it to this account in the Cayman Islands". They could not do that. You have a separation of control from management. That is a basic in pension fund management, but sometimes people forget about it.

The Actuary tells you what your funding status is, what your benefit pay outs will be, tells you about change. When you contemplate changes in the fund, they will calculate the implications of different changes. So their job is to tell you what you need to do to keep the fund funded so you will be able to pay out the benefits that are promised when those benefits are due.

The Money Managers job is to produce investment results. If you look at the evolution of your fund and the evolution of the investment management industry there are a number of things that have happened. I wasn't here in 1985 when we saw the first data that you had on your assets, but I am willing to bet that 25 million dollars was with a couple of local banks.

In those days, people said the banks are the guru's, the experts, we will give them the money and let them run it. Generally, they were run in balanced funds where the manager controls both stocks and bonds and then decides how much goes into each. *That model of managing money has really gone by the way side.* Your fund has moved along in terms of the evolution of the industry. Today what we have is basically ***specialized*** investment managers. Managers that are specialized in a certain portion of the equity or a certain portion of the bond market and their job is to produce the best results they can in relation to the specific marching orders that they have for your fund. With money management it is no longer a case of "here is a quarter or half of our fund, do what you think is best". That model did not work. It did not produce diversification and in many cases did not produce very good results. The money management world is sufficiently specialized so that nobody is good at everything. The only way you can get above average risk adjusted returns is to have somebody who really understands a certain aspect of the investment market and pursues it for you. That puts a lot more of the decision making burden on the investment consultant and the trustees of the fund. As a Board of Trustees, and us as your advisor and consultant, we work with you on investment policies that make sense and diversification strategies that make sense and to continue to work with you on an ongoing basis to look at managers to be sure they are doing what they should be doing. Is he getting competitive returns for you in relationship to his peers? Should we think about changing managers or changing strategies?

The investment manager world is extraordinarily competitive and you have a lot of very bright, talented people competing for a lot of money. Money managers do fail, it does happen. They don't steal your money, but they get stale, or they lose some key people, or their ideas are not current in the market as they once were. So, you need to continually monitor managers to be sure they have the skills they had when you hired them, and that they continue to be appropriate for your fund at the stage of the game you are in.

One of the consequences of this specialization of investment management that we have seen evolve over the years is that manager performance gets more and more volatile in relation to a broad market index. You have examples of that in your fund. When people think the world is falling apart and small companies won't be able to borrow money anymore, somebody who holds that kind of portfolio takes big losses. If you call them in and say "why did you hold all of these small companies, why didn't you dump them and buy energy stocks which are going up?" They say "that is not what you hired us for, and we don't know anything about energy stocks". The other consequence you need to be aware of is the increasing volatility of investment managers so you understand when a manager is underperforming. Is it because the wheels have come off the bus, or is it cyclical under-performance. That is really part of our job as a consultant is to understand the manager and have the data to help you assess that. So, you are at the center. You are making the decisions that drive the fund forward and have these advisors with different skill sets and missions working for you to help you accomplish your goals.

Any questions?

Trustee: Have we ever had a money manager that got off track from what they were hired for?

Mr. Potter: Forstmann Leff would be an example. They were one of the managers here when I started working as a consultant. They were a real market savvy type of manager. Managing money cannot be automatically reduced to a formula. It always involves mathematical and quantitative analysis. There is an art form to it in terms of judgment and figuring what is going on in the market. Forstmann Leff was what you would call an opportunistic kind of manager. In general, their approach was growth stocks but there would be periods of time where they would buy other types of stocks that were questionable. They were buying them because they were cheap. We had a number of discussions with them over the years, and the Trustees were skeptical wondering if Forsman Leff had gone bonkers. They always ended up producing good results based on good investment judgments. Then, their lead portfolio manager retired, they were acquired by another firm, there was a regulatory problem and the SEC started looking into them and things began to unravel. At that point, we said enough is enough and you decided to terminate their contract. They eventually went out of business.

Another example is Batterymarch. When we interviewed them they had the most believable and understandable group of mathematical models that you could ever come across. They thought of every aspect of managing money and had it all worked out. When we went through the recent financial crisis, Batterymarch, and other managers who based their money management disciplines on strictly mathematical models, all produced very, very, poor results in the market downturn. Much worse than the broad markets. The markets were so crazy that the models did not work. These are the two pulls - you are dealing with judgment and quantitative. You need to assess and make judgments on it.

The Custodian keeps track of class action lawsuits and files on your behalf for recovery. The amount of money they have recovered over time is in the hundreds of thousands of dollars. They also do securities lending for you. The Custodian has the ability to call it back at any time. That has produced good returns for you in terms of adding an extra component of income for the fund. During the down turn some of the collateral they got back declined in value which created a deficit in that account. Northern really worked hard at solving that problem and making people whole. The problem with securities lending collateral has gone by the way side now, meaning bond markets have recovered.

The Actuary, Gabriel Roeder Smith, gives you liabilities in funding, benefits consulting, and maybe some asset liability modeling.

<u>Policy:</u>
You do have a policy in place. It was drafted some time ago but has had some revisions. As a part of this review and as we continue into 2011, now would be the time to update your investment policy. There have been a lot of changes in the way people manage money and the way the markets operate since the time that the policy was originally drafted. With a new group of Trustees this is the ideal time to set new policies.

In a broad sense an investment policy covers funding, goals, benefits, and investments. Every Board of Trustees is different. Some want to be 100% funded, some are satisfied to be at 75% and take more risk. The guts of most investment policies is laying out the investment program.

<u>Funding Policy Considerations:</u> How much of the future benefits that you know are coming do you want to build up now in terms of security now, and how much of it do you want to let ride in terms of expected future returns. It is balancing risk and reward on future pay outs. When your Actuary comes in she talks about current funded status and the trends. Michigan has statutes that apply specifically to investment and municipal pension funds. You need to abide by those. You need to consider funding for the pension fund. Your fund has been in a very favorable situation in comparison to a lot of funds in Michigan. It has been so well funded

and the investment return has been so good that the County has not had to make a lot of contributions to the Fund. You are reaching a point now where the County will have to start making contributions. That is a new element in the equation.

Benefit Policy Considerations: The benefits are pretty much set in State law. You can't change your benefit formulas at will. You have used the surplus money that did not have to be paid into the pension fund, and used it to fund the VEBA. That is a benefit policy consideration.

Trustee: So the VEBA won't be funded?

Mr. Potter: Well, you won't be able to put the County money in the VEBA.

Ms. Wright: When the VEBA was set up everybody was putting the 4% employee contributions from the retirement system into the VEBA. Once the funding level for the retirement fund is below 125% for any single group, you are required to put that 4% into the retirement. The VEBA is still being funded by some groups on a discretionary basis. Some groups are still putting money in there, that is their decision. I don't think we will ever get to the point where the 4% can go back in there as far as being over 125% over funded in the retirement system.

Mr. Potter: The way the actuaries calculate things they don't take 100% of the losses in a year. They use a technique called "smoothing". The idea of smoothing techniques is to decrease the volatility of annual contributions. Smoothing works two ways. One, it gives you some cushion in the down turn, but when you have a couple of good years, on the up market, you are picking up and covering some of those losses that were deferred in the time period that you are smoothing. Eventually, if you have five or six good performance years in a row, you will see funding starting to increase pretty dramatically. Potentially, it could get back to the level where you can put that money into the VEBA. That will take time and will not happen automatically with a couple of good years of investment return.

Some discussion about the smoothing technique used by the Actuary and when we can expect once the year 2008 drops away.

Mr. Potter: This afternoon I will present your 2010 performance. In 2010 we earned 18.6% on a Total Fund basis. Nothing can change that right now.

Mr. Black: If you look at 2008 and what you lost in 2008 you can't make that up. That is an investment that you lost, it is not invested any more. It takes a long time to make that up when you take a hit like 2008.

Mr. Potter: That is where you get to the balancing thing. If you look back to those twenty five year numbers we looked at in the beginning, if the County had taken the position of "we don't want any equity risk, we are going to 100% bonds", the amount of money that you would have to put into this fund would be staggering.

If you have three good years in a row, that will start counteracting the 2008 losses and if it is good enough it will diminish them enough that it will increase the liability. It is a gradual process based on what happens in the investment market.

If you look at the dollars you made last year, you actually made 37.6 million dollars on investments. Your fund continues to be at a point in time where you are paying out more benefits than money coming in. The net pay out was $8.3 million in 2010.

<u>Investment Policy Considerations:</u> Mr. Potter discussed Emerging Requirements (demographics), Capital Markets, Special Interest Groups, (Bay County Outside Groups), Accounting, Administrative, etc., Goals and Objectives, Funding Policy and Benefit Policy.

<u>Benefit Policy Considerations:</u> Mr. Potter discussed Inflation. It has been pretty benign recently. There were periods in the 70's where it was not benign. Actuaries will always tell you that benefit pay outs are geared to inflation. If there is inflation there is lots of pressure on the rule makers to change benefit formulas. Contract negotiations affect benefit pay outs, there is the cost of the Plan, and other benefits such as VEBA.

Some discussion regarding the benefits process and how long it takes. Ms. Wright explains that it does not take that long. An actuary study is done. Your Board can decide because you are your own financial entity. It then goes to the Board of Commissioners because there is one small union group out there, you are not contractual. The Board of Commissioners would adopt an ordinance change and that would be it. If any outside groups decide to make changes the Board of Commissioners goes along with it. State considerations involved and State law must be followed.

Mr. Potter turns the presentation over to Jeff Black.

<u>Basic Retirement Funding Equation:</u> Mr. Black discusses the concept of Revenue equaling Expenditures. Contributions plus any Investment Income should equal the Benefits Paid out plus Fees and Expenses. (C + I = B + E).

<u>Asset Management Process</u>: The Consultant, along with the Board of Trustees establish policy, implement policy, hire managers and evaluate managers. We determine the areas we like to invest in, or the strategy.

We then hire managers to fill each of those spots. The manager's responsibility will be to allocate those assets and put them to work in the ways that best fit in the niche they are assigned to. The Consultant will then track and monitor performance. The Custodian Bank receives statements for all the transactions that the money managers incur in your account. The Bank then sends a statement to Danean. We also get a copy of that statement and we will look it over and enter all the transactions into our system to replicate and verify all the prices. This third party data compares it to what the Custodian Bank gives us and that is how we are able to provide an independent evaluation on top of what the Custodian gives you. We can then say, assuredly, yes, this agrees with the market prices, the managers have given you a good rate of return, this is accurate. There are many other technical processes involved in the evaluation as well.

Investment Policy/Asset Allocation Establishes: The goal of the Plan is to establish an actuarial rate of return to achieve all your benefits. The main goal of the Plan is to achieve the 7.5% rate of return per year. How we figure that out is by blending many asset classes that have different expected returns and risks into a portfolio. We have mathematical tools called optimizers and statistical software to analyze the return patterns of all these asset classes or potential investments. We bring these results to you and together we have a conversation to determine if we need to refine it. This applies to assets and strategies not to an individual manager. Mr. Black explains how managers are placed within each asset class, minimum fees or extras fees paid to them depending on the expectations. Different considerations can be built into the manager guidelines. Alternative Asset Allocation could be real estate or anything beyond the traditional fixed income and equity funds.

Asset Allocation: discussion of the 1986 Brinson, Hood & Beebower Study and the 1991 Brinson, Singer & Beebower Update.

Probability Distributions: chart shows rates of return and risk. If you want one good exhibit of what investment policy means, this would be the one. Policy A is conservative with lower expected returns, Policy C higher expected return but higher risk also, Policy B is in the middle.

Trustee: Where are we today with our investment policy in regards to this chart?

Mr. Potter: I would say you are closer to Policy C because of your high equity commitment. If you look at your returns that you had in 2010 they are definitely upper bar chart returns. When you look at Total Return against the broad universe, it is at the very top of the broad universe.

Tape malfunction at this point - unable to transcribe remainder of the meeting. The following topics were listed in the handout:

Expected Risk/Return:

Capital Market Assumptions (Updated January 15, 2011):

Correlation
One Asset Portfolio
Two Asset Portfolio
Downside Risk or Uncertainty
Benefits of Diversification
Asset Allocation
Functions of an Investment Policy
Manager Structure Analysis Resolves
Manager Structure Issues
Manager Selection Process
Evaluation of Money Managers
Manager Monitoring
Today's Environment
Evaluation

Announcements:

The next meeting is scheduled for Tuesday, March 8, 2011 at 1:30 P.M. at this location.

Unfinished Business: None

New Business: None

Miscellaneous Business: None

1. Moved, supported and carried to adjourn the meeting at 12:00 P.M.

Respectfully submitted,

im Quinn
ecretary

MEETING OF THE RETIREMENT BOARD OF TRUSTEES ON : February 8, 2011

IN THE FINANCE DEPT CONFERENCE ROOM, LOCATED AT 515 CENTER AVENUE,
7TH FLOOR, BAY CITY, MI 48708

MEETING CALLED TO ORDER BY: Chair Steve Gray at 1:34 p.m.

OTHERS PRESENT: RICK POTTER, DANEAN WRIGHT, KEVIN RYAN , SCOTT WESTPHAL
CRYSTAL HEBERT

TRUSTEES PRESENT:	1	2	3	4	5	6	7	8	9	10	11	12
BRZEZINSKI	Y	Y	M	M	S	Y	S	Y	S	M	Y	M
CARPENTER	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
COONAN	M	Y	S	S	M	M	Y	S	Y	Y	M	S
DEATON	S	Y	Y	Y	Y	S	M	M	Y	Y	S	Y
GRAY	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
PELTIER	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
PETT	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
RYDER	Y	M	Y	Y	Y	Y	Y	Y	M	Y	Y	Y
STARKWEATHER	Y	S	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

CODE:

M - MOVED; S - SUPPORTED; Y - YEA; N - NAY; A - ABSENT; E - EXCUSED

TRUSTEES PRESENT:	13	14	15	16	17	18	19	20	21	22	23	24
BRZEZINSKI	S	Y	Y	M	Y	M	M	Y	M	S	M	Y
CARPENTER	Y	Y	Y	Y	Y	Y	Y	Y	S	Y	Y	Y
COONAN	Y	S	M	S	Y	Y	Y	M	Y	M	Y	S
DEATON	M	M	S	Y	M	S	S	Y	Y	Y	S	M
GRAY	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
PELTIER	Y	Y	Y	Y	S	Y	Y	S	Y	Y	Y	Y
PETT	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
RYDER	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
STARKWEATHER	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

CODE:
M - MOVED; S - SUPPORTED; Y - YEA; N - NAY; A - ABSENT; E - EXCUSED

TRUSTEES PRESENT:	25	26	27	28	29	30	31	32	33	34	35	36
BRZEZINSKI	S	Y										
CARPENTER	Y	Y										
COONAN	Y	M										
DEATON	Y	S										
GRAY	Y	Y										
PELTIER	Y	Y										
PETT	Y	Y										
RYDER	Y	Y										
STARKWEATHER	M	Y										

CODE:
M - MOVED; S - SUPPORTED; Y - YEA; N - NAY; A - ABSENT; E - EXCUSED

The meeting, held in the Bay County Finance Department, 7th Floor, Bay County Building, 515 Center Avenue, Bay City, Michigan, was called to order by Chairman, Steve Gray at 1:34 P.M. Roll call was taken. All trustees are present.

1. Moved and supported to approve the minutes from December 2010

2. Moved and supported to approve the minutes from January 2011.

Discussion: On page 13 of the agenda (page 5 of the January minutes), correction made to the spelling of a name. Should be Ernie Krygier, not Craggier.

Mr. Gray called for public input. Seeing as there is none, he moved on to petitions and communications:

Mr. Rick Potter, our consultant from Becker, Burke Associates presents his Investment Performance Analysis ending December 31, 2010. The Total Plan assets were $235,317,215 million at this point in time. Domestic Equity 58.5%, International Equity 9.8%, Fixed Income 27.7%, Real Estate 3.2% and Cash at 0.7%. The Total Plan was up 9.7% for the *quarter*, domestic equity was up 15.3% overall. The S&P was 10.8% for the *quarter*, so your managers overall had a very, very good quarter. If you look at the managers individually, the best return was with Hotchkis & Wiley, they were up 23.3% for the quarter. They are a small cap value manager and they were a manager that we talked about in past meetings that got hit very hard during the economic downturn. They have recovered pretty dramatically. Cumulatively, they are still below average, but have made up a lot of ground. The second best return is Integrity at 15.2%. Wentworth is at 4.8%, Eagle (replaced Batterymarch) was up 17.9%. Overall, when we talk about the market environment, it is a good period of time for small cap stocks and mid cap stocks. It is true in the U.S. and true internationally.

Overall, international equities were 7.6%. Schroder was 11.1%. In Fixed Income, we barely break even for the quarter, that is nine tenths positive. The Fixed Income return really came out of convertible bonds. Convertibles have characteristics of stocks and bonds to them so they benefitted from the stock equation in this period of time. People began moving out of the "safe" assets into the more risky assets and that would be equities and also lower quality bonds. As you sell off assets to fund those kind of investments it produces supply and demand situations. The REIT was up 7.8% for the quarter.

Looking at the *one year basis*, the Total Plan is up 18.6%. Domestic Equities were very, very strong, up 24.1%. The S&P 500 was up 15.1% and you see the same effect for the year that you saw for the quarter, that small and mid cap managers had very substantial results coming off some low return in the market decline. Looking at the individual managers, there is no data for Eagle, as you have not had them for a year. Hotchkis was 45%, Denver was 32%, Integrity 28%, Marvin and Palmer 20.3%, Wentworth 11.4%, (Note: report indicates 14.4% for Wentworth) and Columbia at 20%.

At this morning's session we were talking about diversification by strategy. When we look at your Total Fund in the Equity results you will see some of the benefit of diversification by strategy that you enjoyed in this year. If we look at some past years you had seen the down side of diversification in small and mid cap. International was overall for the year up 15.5%. Fixed Income was up 9.0% for the year and Real Estate was up 29.3% for the year. Overall, a very, very strong year.

When we look at real estate, you bought at a low point, so you did not suffer any of the declines that many others did that had been invested in real estate for a long time. You bought toward the bottom and have a great up side on that one.

Mr. Potter now moves to the detailed report starting with page 5 the market environment. The chart shows last quarter, one year, three years, and five years. The Russell 2000 represents small and mid cap stocks, and they were up 26.9%. The S&P was up 15.1%. EAFE which is non-U.S. stocks is up 7.8%. Over time that has been a great performer. Barclay's Aggregate was up 6.5% for the year.

Page 6: You started the year with $206 million, you took out $8.3 million more than was added to the fund. On an investment standpoint, you made $37.6 million. A little under five million of income and $33 million in round numbers of market value gains, so you ended the year at $235 million.

Page 8: indicates dollar amounts for each of the money managers. The biggest individual manager in terms of dollars is Wentworth with some re-allocation that took place.

Page 10: Equity Commitment. You have been above average in equity commitment. That was a conscience strategy on the part of the Fund over a long time period.

Page 11: This is a special exhibit. What we do here is calculate an investment policy index. We take your investment policy targets and we calculate the returns of what that investment policy index would earn being invested all in index funds. In domestic equities we use the S&P 500, for international we use EAFE, and in bonds we use the Citi Broad Bond Index. For the one year mark you earned 18.6%. If you had money in all index funds instead of your managers, the return would have been 11.8%. So, your addition of managers in the one year added value. If you look at the three month, you outperformed your policy index. A broader and better analysis would be longer time periods. At the five year mark you earned 4.4%, the policy index was 3.8%. At ten years you earned 4.7%, the policy index was 3.3%. On a longer term basis you have outperformed your policy index. The Fund out performed the Bond Index as well.

Page 12: Total Fund Result. This data base is developed in the same way that we develop data from your Fund. There are sixteen different consulting firms like ours that contribute to this data base. All of it is based on custodian data and returns are calculated in an identical fashion so it should be apples to apples kind of comparison. If you look at the one year column the median fund was up 12.4% for the year, your Fund of 18.6% ranks top one percent. So, it is in the top one percent of funds for this year. Two Years, we were in the top three percent of funds. In all cases, you out performed the policy index.

Page 13: This shows year by year results. In December 2008 the Fund was down 30 points and that ranks in the bottom 8% of that universe. Other than 2001, in down market years, you see low relative results. That is the effect of the equity commitment. This is Policy C at work for you. When you look at the up years, 2009 was up 27%, that ranks in the top ten percent, about 7.5% above the median and then 2010, again well above the median.

Page 15: Investment manager style and diversity. Shows large, mid and small cap managers and their value/growth in relationship to core. Some discussion on the movement of these companies and whether it is a problem or not.

Page 16: looks at all the equities together and at their returns. On a three year basis they ranked close to the top quarter of large core. On a one year basis they are in the top two percent. When you add all the years together including 2008, relative to other large core equity portfolios your overall pension fund assets are well above the median.

Page 17: this is a special exhibit to show all of the managers in one place in comparison to their style. At the one year mark Hotchkis & Wiley is in the top 3% of the small cap value style, Integrity is in the top 10% of the mid cap value style, Denver is in the top 20% of mid cap style, Columbia is in the top 7% of the large cap value style, Marvin & Palmer at 22% is in the top quarter of their large cap growth style. Wentworth and Hauser at the 72 percentile is lagging in relation to their large cap growth style. So, this year, other than Wentworth, everything was working for you with your managers.

Looking at the five year figures, which mean a lot to us, Hotchkis recovered substantially but their five year record is dragging. Denver is dragging, Columbia is very strong on a five year basis, Marvin and Palmer has not been here five years, and Wentworth is in the bottom quarter for five years.

Page 29: a summary exhibit for non domestic equity managers. At the one year mark Barings was about average in relation to international funds. Schroder was top 4% in relation to small cap international. The hiring of

Schroder four years ago was a diversification move. We did not have small cap international and they were hired to round out that area of the market. That has been particularly strong for you in the past couple of years. Cornerstone who will be here today is up 29% and ranks 19. If you look at the two year record it is 30.8% over two years and ranks at 15. Cornerstone was also a diversification move. Cornerstone invests in REIT which are stocks that own real estate. When the sentiment about real estate is so negative, that is magnified in a negative way in the value of REIT stocks. You bought an undervalued asset using undervalued stocks. That has paid off for you. It is always hard to make an investment like that when things are looking bleak, but in this case, it worked out well for you. I think it is because our discussions have been that we have to put a plan in place and we have to carry it out. We don't want to ignore day-to-day things, but we also don't want to become overwhelmed by day-to-day things either.

Baird was below a broad index. Owning government bonds in a recovering bond market is not the ticket for making a lot of money, but you have Loomis for diversification. Loomis did well for you because they own corporate bonds. MacKay Shields is up 10%.

Page 38: You can see that on a one year and two year basis you are in the top one percent of public funds. At three years you are in the top third and at five years you are a little below average.

Page 40: Shows other public funds comparisons year by year results.

Page 41: Equity commitment compared to other public funds. Your 67% equity puts you in the top 12 percent of equity commitment of public funds. As you look at year by year you are solidly in the top quarter each year. The main thing is that you did not panic or throw in the towel when things went bad. You did have good managers here and they ended up producing for you.

Mr. Potter concludes his presentation.

3. Moved, supported and carried to receive the report from Becker, Burke Associates.

Also present today are Scott Westphal and Kevin Ryan from Cornerstone Real Estate Advisors. Cornerstone is a real estate trust manager based in Stamford, Connecticut. They begin their presentation with a handout to all present.

Mr. Ryan advises there have been some internal changes at the company. Babson Real Estate Finance Group is now under the Cornerstone umbrella. That integration was completed as of January 2010, it was finalized in August of 2010. No real changes operationally. It is a fully integrated real estate platform. Cornerstone covers private equity, private debt, public equity and public debt. Public equity being the real estate securities team, which Scott Westphal manages. Assets under management are over $30 billion of private and public real estate interests as of December 31, 2010.

Mr. Westphal: starting on page 7 he discusses the market environment. He discusses a national view of the world and what has happened over the last twelve months. In August of 2010 there was a movement to create another stimulus program called QE2 (Quantitative Easing) which was essentially an effort to buy down the interest rates in the United States. The purpose was to try to lower the cost of financing, stimulate companies to invest and create jobs. Historically, quantitative easing does not work particularly well either here, or other countries. Japan has tried it repeatedly and it has not worked particularly well. What it did do was put a little bit of floor under housing prices temporarily. But we think a lot of that impetus is gone at this point in time. The real question is does the federal government come back with another stimulus program or do they let the country try to recover on its own by letting private enterprise operate as efficiently as they can. That is the big question going into 2011 from a macro point of view.

We do think we have the footing of a fairly decent recovery. We think that 3 to 3.5 percent is achievable in 2011. Although it is not what we would hope for, it is not that bad either.

The presenters review the materials provided to the Trustees and discuss GDP growth, the economy, and jobs. Other topics covered are private sector versus public sector growth, growth and supply of real estate in the U.S. markets, and the recovery of the real estate market. They discuss the five property sectors of multifamily, office, industrial, retail, and hotels. They discuss research outlook and trifurcated pricing which covers three markets: 1) high demand properties in urban markets that have incredible demand 2) suburban properties in secondary markets that have modest demand 3) distressed assets that are under stress due to financing or leasing issues. The REIT market primarily invests in the prime properties in large, urban metro areas, such as Boston, New York, Washington D.C., San Diego, Los Angeles, San Francisco, some parts of Chicago, and some southern cities like Atlanta and Dallas.

They discuss what they think is positive about REITS which is they are going to be able to take some of the cash flow they are earning and put it into some pretty attractive acquisitions. They think there will be great opportunities for REITS to go out and buy acquisitions at attractive prices. It will just take a little longer for the cycle to play out. Lastly, we project a 2011 total return for the real estate securities universe of 9% - 12%.

Bay County Retirement System Portfolio Composition as of 12/31/10:
Mr. Westphal reviews the pie chart on page 18. We have fairly significant over weights in hotels, regional malls, shopping centers and also industrial. This is based on our beliefs that these properties will be able to take advantage of the improving economy and really improve their cash flow significantly.

Page 21 shows the portfolio performance from inception (October 21, 2008) through 2010.

FTSE NAREIT UPDATE:
At the end of last year, Weyerhaeuser, a lumber and paper products company decided to convert their company into a restructure. When they did that the very small insignificant portion of the REIT market that represented timber companies grew dramatically. This is a very, very, large Fortune 500 company. The portion of the NAREIT equity index, your benchbmark, went from having a very insignificant portion of timber companies to a very large portion. It went up to about 7% which is a very significant portion of our index. NAREIT, which is the governing organization that controls the industry benchmark, decided they did not want to have 7% in their primary commercial real estate index. Timber has some attributes to it that don't really act like commercial real estate.

NAREIT took timber out of the NAREIT Equity REIT index, which we were using for a bench mark, and put in into the NAREIT All Equity REIT index so they could maintain an index that was a pure play on commercial real estate. Because of this it basically created an index that most of our competitors are embracing. They are embracing the NAREIT Equity Index that excludes timber.

We are recommending to our clients that they stay with the NAREIT Equity Index which has been re-characterized along the lines of what I just described. That is pretty much where we are with the benchmark.

The speakers conclude their presentation and depart. The regular meeting resumes.

4. Moved, supported and carried to receive the report from Cornerstone Real Estate Advisors.

5. Moved, supported and carried to receive the Portfolio Value January 1, 2010 through February 2, 2011

The value as of yesterday was $241 million.

New format on the agenda will separate managers that are on watch, from managers that are performing well.

Managers on watch:

6. Moved, supported and carried to receive portfolio performance from Hotchkis & Wiley.

7. Moved, supported and carried to receive the portfolio performance from Loomis & Sayles.

8. Moved, supported and carried to receive the portfolio performance from Wentworth Hauser & Violich.

Some discussion regarding Wentworth,Hauser & Violich. Mr. Potter states that in terms of an investment organization they are a very top quality group of people. We put them on watch at the end of 2010, and we usually give them one year. Mr. Potter thinks they are worth waiting on.

Discussion about the watch list, and how money managers get on and off this status. Mr. Potter explains that maybe they were acquired by somebody, or perhaps had a major change in strategy. Terminate can take place at any time, we don't have to wait the full year. What gets them off watch status is improved performance. Nothing is specified in our policy on how much improvement and how consistent the improvement needs to be. It is just general improved performance.

Discussion on policy. Mr. Potter advises that we are going to be updating our investment policy, and "watch status" and what means would be a subject to be addressed. He advises that we would probably not want to make hard and fast rules, because we are liable to come up with some rules that don't make sense based on circumstances for years into the future. There always has to be some element of judgment, as discussed in this morning's session. We have terminated managers in the past, it is just a question of what is best for the Fund going forward, to cut, or ride it out.

Suggestions made that perhaps managers on watch status should be reviewed on a quarterly basis. Three of the managers have been on watch for over one year, and a decision should be made on whether to retain them or terminate them. In the past, after one year, a letter was sent to the money manager advising them of our decision so they were not left hanging. Mr. Potter likes the distinction between Administrative Policy versus Investment Policy which is a flexible way of dealing with an uncertain situation. From the standpoint of dealing with managers we should not put them off and on watch all the time.

All other managers:

9. Moved, supported and carried to receive performance reports from the following managers: BNY Convege, Baird, Baring, Columbia, Cornerstone, Eagle Asset, Integrity and Marvin & Palmer.

10. Moved, supported and carried to receive Northern Trust Summary Earnings.

11. Moved, supported and carried to receive on watch status for Denver Investments.

12. Moved, supported and carried to receive Refunds and Retirements for January 2011.

13. Moved, supported and carried to approve the non duty disability retirement request from Kelly Jean, to be effective March 2, 2011.

14. Moved, supported and carried to approve the non duty disability

retirement request from Nancy Rogers to be effective March 1, 2011.

15. Moved, supported and carried to approve request from Barry Hugo to purchase four years of military service credit for $10,067.20.
16. Moved, supported and carried to receive correspondence sent to money managers regarding commission recapture to Lynch, Jones & Ryan.
17. Moved, supported and carried to receive correspondence sent to money managers regarding re-balance of asset allocation.
18. Moved, supported and carried to receive correspondence to Northern Trust regarding transfer of cash between accounts.
19. Moved, supported and carried to receive correspondence received from Hotchkis & Wiley regarding the commission recapture letter.
20. Moved, supported and carried to approve proposed fees from Gabriel Roeder and Smith for December 2010 Actuarial Valuation. Said fees to range from $29,500 - $32,000.
21. Moved, supported and carried to receive correspondence from County Executive naming Timothy Quinn as his designee to the Bay County Employees' Retirement System Board of Trustees.
22. Moved, supported and carried to receive correspondence from Northern Trust regarding name change.
23. Moved, supported and carried to approve request from Cynthia Luczak to purchase two years and eight months of governmental service time for $14,143.22.
24. Moved, supported and carried to receive Notice of public meeting scheduled for this morning at 9:30 a.m., February 8, 2011.

Announcements:

The next regular meeting is scheduled for Tuesday, March 8, 2011 at 1:30 P.M. at this location.

Unfinished Business:

Trustee comments that everything has been working perfectly, and thanks Ms. Wright for sending email with attachment from Cornerstone for review prior to the scheduled meeting.

Ms. Wright has a question for the Board. She would like to know how the Board feels regarding holding regular meetings at a different location. The other options are the Third Floor MSU Extension Conference Room or the Personnel Conference Room on the Ground Floor.

New Business:

Mr. Starkweather makes a motion to create a sub-committee comprised of Tom Ryder, himself, Richard Brzezinski and the Chairman, Steve Gray in an ad-hoc capacity and any other trustee to accomplish the following:

A. Review the 2003 investment policy
B. Consult with Becker, Burke and Associates to develop a new investment policy.
C. Present said new investment policy to the Board for possible adoption.

25. Moved, supported and carried to approve the creation of an ad-hoc committee.

Discussion about bringing in Gabriel Roeder for some training about how they do their calculations. Ms. Wright states she will talk to Cathy Nagy about that. There is a VEBA actuarial meeting coming up in a few months, and this could be addressed at that time.

Miscellaneous Business: None

ADJOURNMENT:

26. Moved, supported and carried to adjourn the meeting at 3:30 P.M.

Respectfully submitted,

Tim Quinn

Tim Quinn
Secretary

Transcribed by: Naomi Wallace

◆Mgr Mix w/ Accruals

Account Name/ Account Number	Cash/ % of account	Short Term/ % of account	Equity/ % of account	Fixed/ % of account	R.E. and Other/ % of account	Pendings/ % of account	Total market value/ % of consolidation
*BAYCO - COLUMBIA MANAGEMENT 2608694	-77,703.34 -0.30%	77,703.34 0.30%	25,769,884.98 99.99%	0.00 0.00%	0.00 0.00%	-73,861.40 -0.29%	25,773,726.92 10.67%
*BAYCO - BAIRD -SL 2618668	-1,235,914.57 -6.09%	1,235,914.57 6.09%	0.00 0.00%	19,448,086.30 95.80%	0.00 0.00%	-382,343.75 -1.88%	20,301,657.12 8.40%
BAYCO - SCHRODERS 2618669	-217.18 0.00%	217.18 0.00%	10,023,348.07 100.00%	0.00 0.00%	0.00 0.00%	0.00 0.00%	10,023,565.25 4.15%
*BAYCO - MARVIN & PALMER -SL 2620611	-406,063.16 -1.59%	406,063.16 1.59%	24,803,322.00 97.29%	0.00 0.00%	0.00 0.00%	284,516.71 1.12%	25,493,901.87 10.55%
*BAYCO - MACKAY SHIELDS -SL 2622490	-1,947,855.38 -9.54%	1,947,855.38 9.54%	2,403,493.64 11.77%	16,132,192.38 78.97%	0.00 0.00%	-56,514.62 -0.28%	20,427,026.78 8.45%
*BAYCO - HOTCHKIS & WILEY -SL 2622536	-36,808.80 -0.28%	36,808.80 0.28%	13,228,446.11 99.77%	0.00 0.00%	0.00 0.00%	-6,243.96 -0.05%	13,259,010.95 5.49%
*BAYCO - WENTWORTH -SL 2624493	-200,282.68 -0.70%	200,282.68 0.70%	28,595,029.21 99.30%	0.00 0.00%	0.00 0.00%	0.00 0.00%	28,795,311.89 11.92%
BAYCO -CASH 2639953	-1,519,077.79 -100.00%	1,519,077.79 100.00%	0.00 0.00%	0.00 0.00%	0.00 0.00%	0.00 0.00%	1,519,077.79 0.63%
*BAYCO - DENVER INV ADV -SL 2639956	-306,667.11 -1.50%	306,667.11 1.50%	20,093,776.70 98.60%	0.00 0.00%	0.00 0.00%	-21,173.44 -0.10%	20,379,270.37 8.43%
*BAYCO - LOOMIS SAYLES -SL 2641401	-1,027,186.38 -4.04%	1,027,186.38 4.04%	0.00 0.00%	24,504,479.89 96.45%	0.00 0.00%	-124,742.50 -0.49%	25,406,923.77 10.51%
*BAYCO - INTEGRITY -SL 2653308	-535,145.83 -2.89%	535,145.83 2.89%	17,854,079.70 96.52%	0.00 0.00%	0.00 0.00%	109,390.46 0.59%	18,498,615.99 7.66%
*BAYCO - CORNERSTONE REALES-SL 2663296	-130,597.33 -1.64%	130,597.33 1.64%	7,698,831.02 96.90%	0.00 0.00%	0.00 0.00%	116,052.83 1.46%	7,945,481.18 3.29%
*BAYCO - EAGLE ASSET -SL 2695063	-115,661.17 -1.17%	115,661.17 1.17%	9,788,997.72 98.61%	0.00 0.00%	0.00 0.00%	22,420.05 0.23%	9,927,078.94 4.11%
BAYCO- BARINGS BYC03	322,920.14 2.32%	0.00 0.00%	13,592,273.30 97.76%	0.00 0.00%	83,877.78 0.60%	-96,060.25 -0.69%	13,903,010.97 5.75%

23

◆Mgr Mix w/ Accruals

Account Name/ Account Number	Cash/ % of account	Short Term/ % of account	Equity/ % of account	Fixed/ % of account	R.E. and Other/ % of account	Pendings/ % of account	Total market value/ % of consolidation
Total for consolidation	**-7,216,260.58**	**7,539,180.72**	**173,851,482.45**	**60,084,758.57**	**83,877.78**	**-228,559.87**	**241,653,659.79**
% for consolidation	**-2.99%**	**3.12%**	**71.94%**	**24.86%**	**0.03%**	**-0.09%**	**100.00%**

24

PORTFOLIO VALUE

2010	BAIRD	BARINGS	BATTERYMARCH	CORNERSTONE	DENVER	EAGLE	HOTCHKIS & WILEY	INVESCO	LOOMIS SAYLES	MACKAY SHIELDS	MARVIN PALMER	INTEGRITY	SCHRODER	COLUMBIA	WENTWORTH	CASH	TOTAL
JAN	20,941,600.46	11,517,174.70	7,138,642.20	5,139,221.13	14,135,705.71	0.00	8,504,163.11	64,688.78	25,794,489.48	18,129,276.35	20,738,711.95	13,735,034.07	7,815,979.82	20,120,927.06	24,178,102.21	2,199,419.81	200,153,136.84
FEB	20,975,025.75	11,542,165.92	7,452,085.43	5,448,857.61	15,047,045.81	0.00	9,056,364.71	61,762.76	25,968,541.18	18,438,126.22	21,629,948.33	14,355,393.21	7,747,987.07	21,126,452.08	25,222,849.42	1,623,868.39	205,696,473.89
MARCH	20,960,877.88	12,179,926.86	8,002,863.13	5,991,787.18	16,022,931.87	0.00	10,087,525.97	60,014.63	25,100,468.49	18,874,992.76	22,405,811.99	15,550,810.14	8,238,893.80	22,228,829.14	26,222,547.54	3,288,065.43	215,216,346.81
APRIL	21,150,647.80	12,016,995.29	8,342,901.57	6,423,631.84	16,577,168.09	0.00	10,766,750.38	58,877.03	25,615,998.06	19,167,022.67	22,494,481.34	16,264,920.75	8,308,813.65	22,564,690.25	25,864,974.60	2,812,406.69	218,430,280.01
MAY	21,436,452.58	11,047,220.44	7,862,108.79	6,092,224.37	15,574,364.31	0.00	10,200,726.13	55,929.30	25,336,148.81	18,425,572.47	20,970,886.27	14,991,127.09	7,371,618.23	20,785,803.34	23,653,575.26	2,228,844.46	206,032,601.85
JUNE	21,698,100.75	11,107,433.48	7,384,246.85	5,763,080.50	14,600,551.63	0.00	9,279,300.83	58,715.00	25,853,276.90	17,996,639.28	19,856,137.62	13,893,860.87	7,413,132.67	19,394,682.88	22,149,359.42	1,485,274.76	197,933,793.44
JULY	20,799,211.32	11,957,064.09	7,831,183.36	6,846,816.13	15,671,404.63	0.00	10,392,787.38	0.00	25,527,395.21	18,431,586.29	20,332,324.01	14,906,494.26	8,028,920.52	20,759,474.90	23,972,615.43	2,785,298.91	208,242,576.44
AUG	21,077,527.97	11,752,483.23	7,153,533.75	6,748,275.07	15,056,740.48	0.00	9,478,820.70	0.00	25,860,984.86	18,237,834.97	19,707,511.65	14,095,542.78	7,817,798.24	19,716,256.51	22,683,540.20	2,433,150.55	201,820,000.96
SEPT	21,042,740.36	12,761,997.19	46.03	7,049,630.49	16,947,394.30	8,069,377.51	10,700,121.28	0.00	26,379,286.09	19,152,175.83	21,942,095.33	15,537,000.80	8,799,738.40	21,445,768.58	25,136,628.73	1,581,988.78	216,545,989.70
OCT	20,564,633.65	13,112,421.26	0.00	7,348,149.26	17,723,851.16	8,420,875.28	11,042,108.61	0.00	25,575,545.18	19,027,548.57	22,813,022.32	16,297,208.60	9,102,490.35	22,266,742.42	26,298,057.29	2,868,333.43	222,460,987.38
NOV	20,548,167.72	12,491,970.94	0.00	7,220,322.23	18,490,700.25	8,850,187.71	11,677,827.77	0.00	25,275,576.73	19,102,632.05	23,415,804.52	16,566,724.87	8,847,124.39	22,331,135.90	26,756,349.07	2,724,855.78	224,299,379.93
DEC	20,311,726.61	13,406,367.64	0.00	7,601,110.84	19,443,479.71	9,511,901.34	13,193,408.82	0.00	25,062,142.68	19,815,351.61	24,782,428.62	17,907,044.51	9,753,327.77	24,088,128.28	26,872,348.65	1,594,377.47	235,343,144.55

2011	BAIRD	BARINGS	BATTERYMARCH	CORNERSTONE	DENVER	EAGLE	HOTCHKIS & WILEY	INVESCO	LOOMIS SAYLES	MACKAY SHIELDS	MARVIN PALMER	INTEGRITY	SCHRODER	COLUMBIA	WENTWORTH	CASH	TOTAL
JAN	20,282,960.21	13,469,271.01	0.00	7,855,559.51	19,762,481.35	9,645,338.48	12,667,242.55	0.00	25,230,006.97	20,108,917.03	24,994,751.61	18,109,791.23	9,929,904.74	24,607,913.78	28,277,844.81	2,673,640.73	237,615,624.01
FEB	20,333,087.68	13,922,984.92	0.00	8,264,845.83	20,614,690.78	###########	13,401,835.32	0.00	25,465,286.67	20,565,524.39	25,880,455.91	18,791,456.29	10,024,545.75	26,272,034.16	29,133,677.99	1,842,702.27	244,557,842.36
MARCH																	0.00
APRIL																	0.00
MAY																	0.00
JUNE																	0.00
JULY																	0.00
AUG																	0.00
SEPT																	0.00
OCT																	0.00
NOV																	0.00
DEC																	0.00

25

2011	BAIRD	BARINGS	BATTERYMARCH	CORNERSTONE	DENVER	EAGLE	HOTCHKIS & WILEY	INVESCO	LOOMIS SAYLES	MACKAY SHIELDS	MARVIN PALMER	INTEGRITY	SCHRODER	COLUMBIA	WENTWORTH	CASH	TOTAL
1ST QTR																	0.00
2ND QTR																	0.00
3RD QTR																	0.00
4TH QTR																	0.00
2009 Y-	0.00		0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

BAIRD	GOVERNMENTAL FIXED INCOME MANAGER
BARING	LARGE CAP GROWTH INTERNATIONAL EQUITY MANAGER
COLUMBIA	LARGE CAP DEEP VALUE MANAGER
CORNERSTONE REAL ESTATE	REAL ESTATE INVESTMENT TRUST MANAGER
DENVER INVESTMENT	MID-CAP GROWTH MANAGER
EAGLE	SMALL-CAP GROWTH MANAGER
HOTCHKIS & WILEY	SMALL CAP VALUE MANAGER
INTEGRITY	MID-CAP VALUE MANAGER
LOOMIS SAYLES	CORPORATE BOND MANAGER
MACKAY SHIELDS	CONVERTIBLE BOND MANAGER
MARVIN PALMER	LARGE CAP GROWTH EQUITY MANAGER
SCHRODER	INTERNATIONAL SMALL/MID CAP EQUITY MANAGER
WENTWORTH	LARGE CAP CORE MANAGER

INVESTMENT MANAGER FEE SCHEDULES

BAIRD	.30% - FIRST $25 MILLION .25% - NEXT $25 MILLION .20% - NEXT 50 MILLION .15% - THEREAFTER
BARING	.95% -ON ASSETS UNDER MANAGEMENT
COLUMBIA	.40% - ABOVE $100 MILLION .40% - NEXT $60 MILLION
CORNERSTONE	.60% - OF THE FAIR MARKET VALUE OF ASSETS
DENVER	.65% - OF THE FAIR MARKET VALUE OF ASSETS
EAGLE	.85% - ON ASSETS UNDER MANAGEMENT
HOTCHKIS & WILEY	1.00% -ON ASSETS UNDER MANAGEMENT
INTEGRITY	.85% - FIRST $15 MILLION .75% - NEXT $25 MILLION
.OOMIS SAYLES	.35% - FIRST $20 MILLION .25% - NEXT $80 MILLION .20% - OVER $100 MILLION
/ACKAY SHIELDS	.50% - UP TO $100 MILLION .40% - ABOVE $100 MILLION
/ARVIN PALMER	.75% - ON ALL ASSETS UNDER MANAGEMENT
:CHRODER	.75% - UP TO $10 MILLION .50% - UP TO $100 MILLION
/ENTWORTH	.80%-FIRST $2 MILLION .60%-NEXT $8 MILLION .50%-NEXT $10 MILLION .40%-NEXT $10 MILLION .30%-OVER $30 MILLION

26

MARVIN & PALMER®
ASSOCIATES, INC.
GLOBAL EQUITY MANAGEMENT

February 23, 2011

Danean Wright
Retirement Accountant
Bay County Employees' Retirement System
Bay County Building
515 Center Avenue, Suite 706
Bay City, Michigan 48708-5128

Dear Danean:

Your portfolio gained 0.9% during January while the Russell 1000 Growth Index rose 2.5%.

The market continued to move higher in January, led by the energy, utilities and technology sectors. The telecom services, consumer discretionary and consumer staples sectors turned in the worst performance for the month. Notably, the rotation out of last year's winners continued in January. For example, the MSCI All Country World Index's 100 worst-performing stocks in 2010 rose 5.3% as a group last month, while the 100 best performers fell 2.6%. This is either a sign of significant market change or a trading rotation which should end shortly. The early evidence in February is that it was a trading rotation.

We believe that the market will reward cyclical sensitivity as 2011 unfolds, and we are emphasizing leaders in the materials, industrials, energy and consumer discretionary sectors.

Your portfolio and performance since inception are attached for your interest.

Sincerely,

Jay F. Middleton

Jay F. Middleton
Portfolio Manager – Principal

JFM/jam

Attachment

27

PERFORMANCE SUMMARY

Bay County Employees' Retirement System

Portfolio Value on January 31, 2011: 24,994,752

Benchmark Russell 1000 Growth Index with Gross Dividends
Reporting Currency US Dollars
Inception Date May 19, 2006

Period	RETURN %			
	M&P Gross	M&P Net	Benchmark	Value Added
January 2011	0.86	0.86	2.54	-1.68
2010	20.23	19.32	16.71	3.52
2009	18.10	17.23	37.21	-19.11
2008	-45.96	-46.37	-38.44	-7.52
2007	25.87	24.94	11.81	14.07
Inception Year	4.61	4.13	10.02	-5.41

Period	ANNUALIZED RETURN %			
	M&P Gross	M&P Net	Benchmark	Value Added
1 Year	29.20	28.23	25.14	4.06
3 Years	-3.17	-3.90	3.12	-6.28
Since Inception	0.40	-0.33	4.74	-4.33

Note 1: Performance is compared to the Russell 1000 Growth Index for reporting purposes. The actual benchmark is the Russell 1000 Growth Index plus 1%.

Note 2: The Russell 1000 Growth® Index is a trademark/service mark of the Russell Company. Russell® is a trademark of the Russell Company.

28

MARVIN & PALMER ASSOCIATES, INC.
GLOBAL EQUITY MANAGEMENT

BARINGS

January International Equity Update

International equity markets continued the year end momentum in January, with MSCI EAFE returning more than 2%. The seemingly benign headline performance however hides some material market shifts during the month. While January often sees some early year positional shifts by investors, differential performance in 2011 has been dramatic. Sectors and regions that performed well in 2010 generally sold off during January, while the leadership baton shifted to the worst performing areas of 2010. By region, Emerging Markets, and Pacific ex Japan were by far the biggest losers during the month, with the former declining almost 3%. In contrast, the so-called peripheral European countries were the top performers, with the Spanish and Italian benchmarks rising more than 9% after significant declines in 2010. Similarly, European sectoral performance in January showed a near -70% correlation with 2010 performance, one of the biggest turnarounds in three decades. At the same time we saw significant style bias, with MSCI EAFE Value outperforming Growth by 4.2% during the month.

Such major moves typically mark turning points, such as a significant market peak or trough and the question for us is whether January's moves are the precursor to a major sell off. The market has rallied more than 90% since the lows of March 2009, so a correction at this point would not be out of the question. Yet, forward valuations in most global equity markets look below average if earnings forecasts are met, while risks of a renewed recession in developed countries seem to have diminished, which would mitigate against a prolonged sell off in the markets.

As we have noted in recent months, however, inflation in many Emerging and Asian countries is running at elevated levels. As a direct consequence of the Federal Reserve, ECB and BoE continuing to pursue interest rate policies near 0%, many of these countries have been reluctant to tighten policy aggressively for fear of driving their exchange rates higher. As a result, many central banks are now "behind the curve" on monetary policy, leading to fears of more aggressive tightening to come. The extent of the underperformance however seems to reflect investor positioning. It continues to be our belief that inflation is likely to be more persistent than many sell side observers forecast. While weather disruptions have been immediate catalysts for food price inflation, their impact reflects a structurally tight global market. We see excessively low interest rates driving inflationary pressures in many areas in the market, away from the under-pressure Western consumer. Therefore, our Emerging Markets weighting is relatively low at this point in time. However, we do not believe that there is a readiness yet to undertake Draconian tightening measures, and therefore liquidity conditions should remain supportive.

We struggle however to be more positive on the biggest beneficiaries of the sell off in Emerging Markets and related sectors, namely the peripheral European markets and European financials. January saw a significant tightening of Spanish and Greek bond yields relative to German bunds on hopes of an imminent solution to the sovereign debt crisis. The main suggestion has been the use of the European Financial Stability Facility (EFSF) to purchase outstanding debt at a discount to par value. While there are legal and political impediments to such a solution, the most important disconnect that we see is that this would crystallize losses for holders of the debt, particularly the banking sector. The weakly capitalized European banks would struggle to absorb such write downs. In addition, the concept of debt restructuring remains an unacceptable scenario to the EU policymakers. Thus we do not believe a comprehensive solution is likely in the near term. Moreover, we believe it will require a crisis situation for the disparate voices within the EU to agree upon a lasting solution, something which leads us to remain underweight the sector.

January was a difficult month for performance relative to the MSCI EAFE benchmark. In the first instance, "growth" as a strategy performed poorly during the month, substantially underperforming the benchmark. While optimism has risen regarding the recovery in the US in particularly, we continue to believe that economic growth will be muted compared to past trends, which leads us toward secular growth and away from cyclical stocks. We also continue to hold a sizable position in gold mining equities that performed poorly as the gold price declined due to increasing economic optimism. Our view remains that the primary driver of the gold price is the level of real interest rates and that while these remain negative gold tends to perform well. With the US economy still a long way from full employment, we have a strong conviction that the Federal Reserve will not raise short term interest rates and therefore real rates will remain negative. Within our gold holdings we have also been negatively impacted by our holding in Centamin, which was heavily sold down due to the political crisis in Egypt. While sentiment around the stock will remain exposed to developments in the country, at this stage there has been no impact on operations, and to the best of our knowledge there is no connection with the incumbent government. Therefore we expect a resolution in the situation to see a sharp rally in the share price.

Regards,
David Bertocchi & Nathan Griffiths
International Equity Portfolio Manager

BARINGS
Baring Asset Management
Independence Wharf
470 Atlantic Avenue
Boston, MA 02210

Tel: 617-946-5200
Fax: 617-946-5400
www.barings-us.com

BNY ConvergEx Group
Execution Solutions

Recapture Services

Bay County Employees Retirement System

Plan Trading Summary (US Dollars)

January 01, 2011 - January 31, 2011

Ref#: 23803

Manager		Current Month Commissions	Current Month Credits	Year-To-Date Commissions	Year-To-Date Credits
Revenue Type: Equity					
Batterymarch Financial Management		0.00	0.00	0.00	0.00
Columbia Management Advisors, LLC		580.50	406.35	580.50	406.35
Denver Invmt Advisors		228.00	159.60	228.00	159.60
Eagle Asset Management		58.50	40.95	58.50	40.95
Eagle Asset Management	Execution	50.84	0.00	50.84	0.00
Hotchkis & Wiley		0.00	0.00	0.00	0.00
Marvin & Palmer Associates, Inc.		750.00	525.00	750.00	525.00
Wentworth, Hauser & Violich, Inc.		816.00	571.20	816.00	571.20
Totals for Equity		**2,483.84**	**1,703.10**	**2,483.84**	**1,703.10**
Revenue Type: Correspondent Equity					
Integrity Asset Management		366.26	256.38	366.26	256.38
Integrity Asset Management	Corrsp Broker	183.10	0.00	183.10	0.00
Totals for Correspondent Equity		**549.36**	**256.38**	**549.36**	**256.38**
Grand Totals		**3,033.20**	**1,959.48**	**3,033.20**	**1,959.48**

30

This statement represents trades through Posted Date January 31, 2011 for all US transactions and upon information provided to us to date from our Global Correspondent Network for all non-US transactions

BNY ConvergEx Group
Execution Solutions

Ref#: 23803

Recapture Services

Bay County Employees Retirement System

Plan Activity Summary and Balance

January 01, 2011 - January 31, 2011

Summary by Revenue Type

Revenue Type	Month to Date		Year to Date	
	Commissions	Credits	Commissions	Credits
Equity	2,483.84	1,703.10	2,483.84	1,703.10
Correspondent Equity	366.26	256.38	366.26	256.38
Correspondent Broker Fees	183.10	0.00	183.10	0.00
International Correspondent	0.00	0.00	0.00	0.00
Correspondent Broker Fees	0.00	0.00	0.00	0.00
Fixed Income	0.00	0.00	0.00	0.00
12B-1 fees	0.00	0.00	0.00	0.00
Transitions	0.00	0.00	0.00	0.00
Adjustments	0.00	0.00	0.00	0.00
No Credit	0.00	0.00	0.00	0.00
TOTAL	**3,033.20**	**1,959.48**	**3,033.20**	**1,959.48**

31

Account Balance

Month	Commissions	Credits	Adjustments	Payments	Month Ending
Prior Year CR or DB	0.00	0.00			2,899.22
January 2011	3,033.20	1,959.48	0.00	2,899.22	1,959.48
February 2011	0.00	0.00			
March 2011	0.00	0.00			
April 2011	0.00	0.00			
May 2011	0.00	0.00			
June 2011	0.00	0.00			
July 2011	0.00	0.00			
August 2011	0.00	0.00			
September 2011	0.00	0.00			
October 2011	0.00	0.00			
November 2011	0.00	0.00			
December 2011	0.00	0.00			
TOTAL	**3,033.20**	**1,959.48**	**0.00**	**2,899.22**	

Current Balance	**1,959.48**

This statement represents trades through Posted Date January 31, 2011 for all US transactions and upon information provided to us to date from our Global Correspondent Network for all non-US transactions

CORNERSTONE

PERFORMANCE HISTORY
Bay County Employees' Retirement System

Time Period			Percent Return Per Period Portfolio Gross	Net	FTSE/NAREIT Equity Index
12/31/2010	to	1/31/2011	3.27%	3.22%	3.25%
12/31/2010	to	1/31/2011	3.27%	3.22%	3.25%

32

PERFORMANCE COVER SHEET (STATEMENT OF CHANGES)

Denver Investments
375 - BAY COUNTY MI EMP RET SY
World
As of: January 31, 2011

33

Statement of Changes

	Current Month
Beginning Market Value	19,441,728
Net Additions/Withdrawals	0
Income Received	7,589
Change in Accrued Income	(4,056)
Change in Unrealized Gain/Loss	(535,297)
Realized Gain/Loss	851,965
Ending Market Value	19,761,930

Portfolio Composition

	Market Value	% of Total
Total Fund	19,761,930	100.00
Equity and Related	18,983,504	96.06
Cash and Equivalents	778,426	3.94

Performance Summary

	Quarter to Date	Calendar Year To Date	12 Months	3 Year	5 Year	Inception Annualized
Total Fund	1.65	1.65	39.79	5.31	5.58	9.14
Equity and Related	1.67	1.67	41.24	6.08	6.20	9.28
Cash and Equivalents	0.01	0.01	0.15	1.25	3.35	3.63

Benchmark Indices

	Quarter to Date	Calendar Year To Date	12 Months	3 Year	5 Year	Inception Annualized
Russell Midcap Growth W/Inc	2.00	2.00	34.26	4.48	4.08	7.16
S&P Midcap 400 W/Income	2.00	2.00	33.46	6.44	4.94	11.04
Nasdaq Composite	1.78	1.78	25.74	4.15	3.21	5.43
S&P 500 W/Inc	2.37	2.37	22.19	(0.05)	2.23	6.42
Russell Midcap W/Inc	2.13	2.13	32.58	4.07	4.06	9.45

**Inception Date: May 31, 1996*

Returns greater than one year are annualized
Report printed on: 2/7/2011 @ 7:26 AM

(STATEMENT OF CHANGES)

Denver Investments

375 - BAY COUNTY MI EMP RET SY

World

As of: January 31, 2011

Statement of Changes

	Current Month	Current Quarter	Fiscal Year to Date	Inception to Date
Beginning Market Value	19,441,728	17,723,258	19,441,728	10,000,000
Net Additions/Withdrawals	0	0	0	(10,939,167)
Income Received	7,589	55,914	7,589	1,603,495
Change in Accrued Income	(4,056)	(293)	(4,056)	3,465
Change in Unrealized Gain/Loss	(535,297)	552,248	(535,297)	2,995,307
Realized Gain/Loss	851,965	1,430,802	851,965	16,098,830
Ending Market Value	19,761,930	19,761,930	19,761,930	19,761,930

Portfolio Composition

	Market Value	% of Total
Total Fund	19,761,930	100.00
Equity and Related	18,983,504	96.06
Cash and Equivalents	778,426	3.94

Performance Summary

	Current Month	Quarter to Date	3 Months	Calendar Year To Date	Fiscal Year to Date	Inception Annualized
Total Fund	1.65	1.65	11.50	1.65	1.65	9.14
Equity and Related	1.67	1.67	11.88	1.67	1.67	9.28
Cash and Equivalents	0.01	0.01	0.03	0.01	0.01	3.63

Benchmark Indices

	Current Month	Quarter to Date	3 Months	Calendar Year To Date	Fiscal Year to Date	Inception Annualized
Russell Midcap Growth W/Inc	2.00	2.00	11.91	2.00	2.00	7.16
S&P Midcap 400 W/Income	2.00	2.00	11.91	2.00	2.00	11.04
Nasdaq Composite	1.78	1.78	7.68	1.78	1.78	5.43
S&P 500 W/Inc	2.37	2.37	9.23	2.37	2.37	6.42
Russell Midcap W/Inc	2.13	2.13	11.18	2.13	2.13	9.45

**Inception Date: May 31, 1996*

Returns greater than one year are annualized
Report printed on: 2/7/2011 @ 7:26 AM

APPRAISAL SUMMARY
375 - BAY COUNTY MI EMP RET SY
January 31, 2011

	Total Cost Value	Total Market Value	Unrealized Gain/Loss	Indicated Annual Income	%PF	Current Yield	Yield To Worst
Equity	14,691,176.53	18,980,038.50	4,288,861.97	114,839.25	96.04%	0.61	
Cash	778,426.09	778,426.09	0.00	77.85	3.94%	0.01	0.01
Total Investments:	*15,469,602.62*	*19,758,464.59*	*4,288,861.97*	*114,917.10*	*99.98%*	*0.58*	
Accrued Income:		*3,465.00*			*0.02%*		
Total Account:	*15,469,602.62*	*19,761,929.59*	*4,288,861.97*	*114,917.10*	*100.00%*	*0.58*	

35

EAGLE | Asset Management
880 Carillon Parkway | St. Petersburg, FL 33716 | p: 800.237.3101

STATEMENT

ACCOUNT NAME	: Bay County Employees' Retirement System
EAGLE ACCOUNT #	: 05231100
BROKER ACCOUNT #	:
OBJECTIVE	: SmallCap Growth Equity
ACCOUNT EXECUTIVE	: Institutional
PHONE	( ) - :
AE #	: BESTEXC

36

Bay County Employees' Retirement System
Frederick L. Dryzga, Chairperson
Bay County Building
515 Center Avenue
Bay City, MI 48708-5128

PORTFOLIO VALUATION AND STATEMENTS

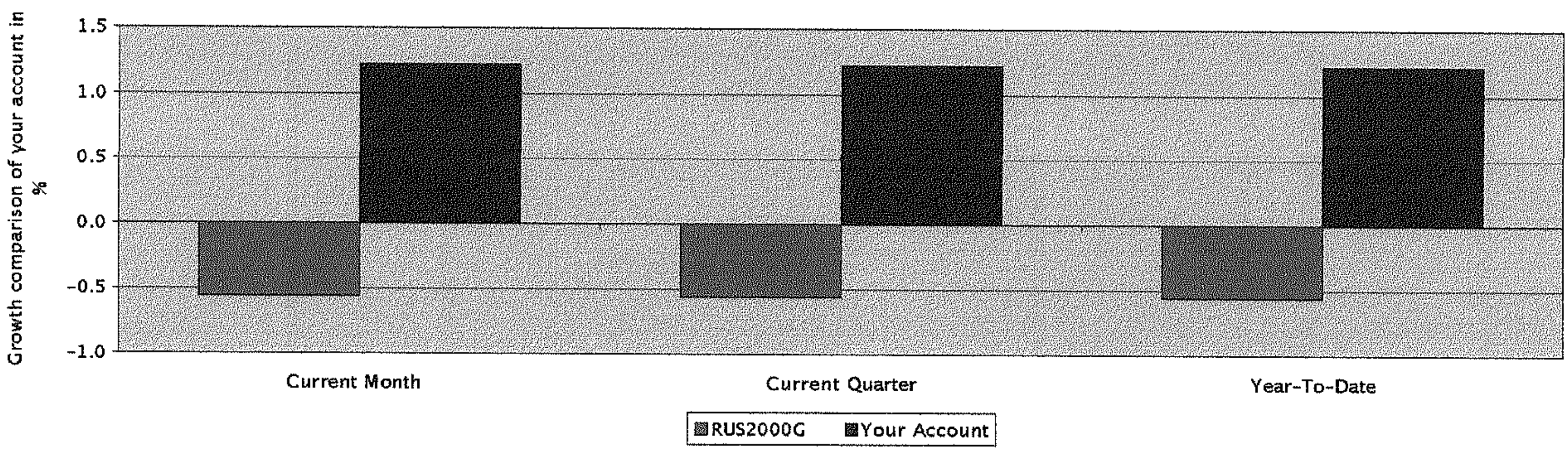
Bay County Employees' Retirement System
05231100/
SmallCap Growth Equity

AS OF 01/31/2011

CURRENT PERIOD STARTED ON: 01/01/2011
CURRENT QUARTER STARTED ON: 01/01/2011
YEAR-TO-DATE STARTED ON: 01/01/2011
INCEPTION DATE: 09/03/2010

ANALYSIS OF RATES OF RETURN

	CURRENT MONTH	CURRENT QUARTER	YEAR-TO-DATE	PAST 12 MONTHS	ANNUALIZED THREE-YEARS	ANNUALIZED FIVE-YEARS	ANNUALIZED SINCE INCEPTION
TOTAL MANAGED ASSETS	1.22%	1.22%	1.22%	N/A	N/A	N/A	N/A
Russell 2000 Growth Index	-0.56%	-0.56%	-0.56%	N/A	N/A	N/A	N/A



EAGLE | Asset Management
880 Carillon Parkway | St. Petersburg, FL 33716 | p: 800.237.3101

STATEMENT

PORTFOLIO VALUATION AND STATEMENTS

Bay County Employees' Retirement System
05231100/
SmallCap Growth Equity

AS OF 01/31/2011

CURRENT PERIOD STARTED ON: 01/01/2011
CURRENT QUARTER STARTED ON: 01/01/2011
YEAR-TO-DATE STARTED ON: 01/01/2011
INCEPTION DATE: 09/03/2010

SUMMARY

CONTRIBUTIONS THRU 01/01/2011	$7,518,498
DEPOSITS MADE DURING STATEMENT PERIOD	
SECURITIES	$0
CASH	$0
WITHDRAWALS MADE DURING STATEMENT PERIOD	
SECURITIES	$0
CASH	$0
TOTAL CONTRIBUTIONS THRU 01/31/2011	$7,518,498
MARKET VALUE OF ACCOUNT AS OF 01/31/2011	$9,645,335

38

We have provided this information regarding your account(s) based on sources we believe to be reliable and accurate. We encourage you to compare the account balances contained in this report to those balances reflected on the statements you receive directly from your account's custodian. Please contact us or the account custodian with any questions you may have. Also, please notify us promptly if you do not receive statements on all accounts from the custodian on at least a quarterly basis.

BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM

Small Cap Value — Total Market Value: $12,666,901 (1.8% Cash) — Month Ended January 31, 2011

Performance Returns - Gross of Fees

	MTD	QTD	YTD	Since Incept.
Portfolio - Total Return	-0.16 %	-0.16 %	-0.16 %	7.47 %
Portfolio - Equity Only	-0.21	-0.21	-0.21	7.20
Russell 2000 Value Index	0.05	0.05	0.05	6.56
Russell 2000 Index	-0.26	-0.26	-0.26	6.46
S&P 500 Index	2.37	2.37	2.37	4.84

Commencement of portfolio: 12/1/03. Periods over one year are average annualized returns.

Weighted Average Portfolio Characteristics

	Portfolio	Rus 2000 V	Rus 2000
Projected P/E Ratio (FY2)	11.9x	13.2x	14.6x
Price / Cash Flow Ratio	5.0x	7.3x	8.8x
Price / Book Ratio	1.2x	1.3x	1.9x
Dividend Yield	0.9%	1.8%	1.2%
Market Capitalization (mm)	$1,739	$1,132	$1,262
# of Holdings / 1-Yr Turnover	54 / 73%		

Top and Bottom Five Contributors to Performance

	End Wgt	Ttl Ret.	Contr.
Arris Group Inc.	2.74 %	11.23 %	0.34 %
ON Semiconductor Corp.	0.98	11.84	0.30
Kinetic Concepts Inc.	3.17	10.15	0.29
Webster Financial Corp.	1.86	16.14	0.28
Miller Industries Inc.	3.67	7.24	0.23
Hudson Highland Group	3.48 %	-5.32 %	-0.18 %
Quiksilver Inc.	1.44	-11.83	-0.19
Con-Way Inc.	4.54	-6.97	-0.30
Valassis Communications	5.22	-6.21	-0.31
Jones Group Inc.	3.35	-18.34	-0.62

Trading Data

Major Buy(Sell) *New buy/final sell	+/-
Alliant Techsystems Inc.	1.2%
Jones Group Inc.	0.9%
Con-Way Inc.	0.5%
CIBER Inc.	0.5% *
Stone Energy Corp.	0.5%
(Terex Corp)	-0.5%
(Bristow Group Inc.)	-0.8%
(Arris Group Inc.)	-0.8%
(Haynes International Inc.)	-1.4% *
(ON Semiconductor Corp.)	-1.7%

Top Ten Stocks - Total Portfolio

	End Wgt
Valassis Communications	5.2 %
Great Plains Energy Inc.	4.8
Con-Way Inc.	4.5
Noranda Aluminum Hldg	4.4
Symetra Financial Corp.	4.0
MI Developments Inc.	3.7
Miller Industries Inc.	3.7
Stone Energy Corp.	3.6
Hudson Highland Group	3.5
PHH Corp.	3.4

Performance Attribution

	Portfolio		Russell 2000 Value		Allocation		
	Avg Wgt	Equ. Ret.	Avg Wgt	Equ. Ret.	Sector	Stock	Total
Information Technology	8.63 %	7.65 %	9.47 %	2.14 %	-0.01	0.46	0.45
Materials	6.40	3.33	6.17	-1.88	-0.02	0.30	0.27
Health Care	3.94	8.16	5.56	1.13	-0.02	0.26	0.25
Utilities	8.60	1.86	6.34	0.11	0.00	0.15	0.15
Consumer Staples	2.08	3.11	2.93	-1.71	0.02	0.10	0.11
Telecommunication Services	0.00	0.00	0.54	-2.87	0.02	0.00	0.02
Energy	6.60	6.93	7.70	5.74	-0.07	0.07	0.01
Industrials	19.20	-1.17	14.51	-0.23	-0.02	-0.14	-0.16
Financials	27.05	-1.40	37.09	-0.43	0.05	-0.27	-0.22
Consumer Discretionary	17.51	-7.88	9.70	-2.87	-0.23	-0.92	-1.15
					-0.29	0.01	-0.28

Top Ten Industries - Total Portfolio

	End Wgt
Insurance	11.1 %
Electric Utilities	8.7
Media	7.0
Professional Services	6.6
Machinery	6.4
Commercial Banks	6.3
Oil Gas & Consumable Fuels	5.9
Metals & Mining	5.4
Textiles Apparel & Lux Gds	4.8
Road & Rail	4.7

Data source: FactSet daily buy-and-hold, gross of fees. Returns calculated using this buy-and-hold methodology could differ from actual portfolio returns when there is a significant difference between the trade price and the closing price of any given security (e.g., IPOs, corporate transactions or closing price conventions). Russell Investment Group is the source and owner of the Russell Index data contained herein (and all trademarks related thereto), which may not be redistributed. The information herein is not approved by Russell. HWCM and Russell sectors are based on the Global Industry Classification Standard by MSCI and Standard and Poor's.

39

MacKayShields

BAY COUNTY EMPLOYEES RETIREMENT SYSTEM

Monthly Report
January 31, 2011

JANUARY 2011 — OVERVIEW OF MONTHLY PERFORMANCE

MARKET OVERVIEW

In January, the US convertible market, as measured by the BofA Merrill Lynch All Convertible Index, was up 2.1%, while underlying equities were up 2.8%. During the month, speculative grade convertibles, up 2.7%, outperformed investment grade convertibles, as measured by the BofA Merrill Lynch Investment Grade Convertible Index which rose 1.9%. Equity markets extended their gains as the positive macroeconomic indicators and numerous favorable earnings reports outweighed the geopolitical risks of Egypt and sovereign debt troubles of Europe.

Telecom was the best performing sector in January, up 4.2%. Sector returns were largely driven by Level 3 Communications' capital structure initiatives to address near term convertible maturities and Terremark's acquisition by Verizon. The worst performing sector was Consumer Discretionary, which fell 0.3% with several companies posting negative earnings reports, specifically Ford, Eastman Kodak Company, and Coinstar.

There were five new convertible bond deals in the month of January with an average size of approximately $390 million. These new deals raised a total of $1.96 billion. The industry breakdown for these new issuances include one Media, two Financials, one Technology, and one Healthcare. Redemptions outweighed new issuance during the month, with $2.5 billion in convertibles taken out of circulation.

PERFORMANCE

41

Most portfolios trailed their respective indices. On the whole, the portfolio's Energy holdings performed well. Energy services company, Cameron International, was a leading contributor for the month as the energy services and equipment sector was very strong following outstanding earnings reports from industry bellwethers Schlumberger, Halliburton, and Baker Hughes.

The convertible bonds of data storage technology company EMC and diversified metals producer Allegheny Technologies also bested the market. The company posted higher-than-expected revenue and gross margins for the fourth quarter of 2010. They also continue to display strength in their storage, VMware, and security capacities. Allegheny rose after the company's fourth quarter earnings announcement, when management stated that sales for 2010 increased by approximately 33% compared to 2009. The company also gave positive guidance for 2011. Management expects to benefit from increased production schedules for legacy aircraft and increased demand for aftermarket jet engine spare parts.

Boston Properties' convertible bonds performed well in January. This Office REIT company posted higher than expected fourth quarter earnings and also raised guidance for 2011. Management at Boston Properties highlighted improved leasing momentum over the last three months is New York City and Boston as well as the catalysts provided by their development pipeline (Atlantic Wharf and 510 Madison Avenue).

Conversely, holdings in auto parts manufacturer BorgWarner and gold producer Newmont Mining were leading detractors during January. Investors sold BorgWarner throughout the month as the valuation of the company's stock richened. Also, auto-related companies such as BorgWarner saw some caution from investors following lackluster earnings reports from automakers such as Ford. With respect to Newmont Mining, although the company reported strong operating figures for the fourth quarter of 2010, their convertible bonds declined in January. Newmont is especially sensitive to commodity metal prices, particularly gold. Gold declined in January.

Overall, healthcare lagged during the month. Alza (Johnson & Johnson) and generics manufacturer Teva Pharmaceuticals were each significant detractors. Alza (Johnson & Johnson) declined during the month after the company reported a disappointing fourth quarter and issued 2011 guidance that was below consensus. Their medical device business slightly exceeded sales expectations, while the pharmaceuticals and consumer businesses missed expectations. Consumer segment sales continued to be hampered by ongoing product recalls and the pharmaceutical business was challenged by a variety of issues including the impact of healthcare reform and product specific issues. Lastly, Teva Pharmaceutical's convertible bonds declined in sympathy with the stock, which was volatile on concerns about the eventual generic competition for its multiple sclerosis drug, Copaxone, as well as a general investor aversion to more defensive healthcare securities.

OUTLOOK

Given the relatively attractive valuation of stocks and the emerging economic recovery, we think that convertible bonds and stocks are likely to be significantly higher in twelve to twenty-four months than where they stood on January 31, 2011. We believe that convertible bonds remain an excellent vehicle through which to participate in further equity advances. Convertible bonds should participate in the majority of the stock market's advances but less than half of any decline in the event that our outlook for equities is wrong. In 2010, convertible bonds exceeded the advance in equities. While the convertible market may not be able to continue to capture more than 100 percent of the upside of the stock market's advances, we believe that convertibles will continue to offer a compelling risk/reward profile.

42

BAY COUNTY EMPLOYEES RETIREMENT SYSTEM

Portfolio Composition and Performance — Account 1256
January 31, 2011

Composition	Market Value	Percent of Total
Fixed Income	16,627,966	82.28
Equity	2,333,234	11.55
Cash & Equivalents	1,247,621	6.17
Total Portfolio	**$20,208,820**	**100.00%**

43

Performance	Latest Month	Latest 3 Months	Year To Date	Latest 12 Months	3 Years Annualized	5 Years Annualized	Since 10/1/2003	Annualized Since 10/1/2003
Total Fund (Gross of fees)	1.39%	5.78%	1.39%	14.00%	2.66%	4.33%	54.66%	6.12%
Merrill Lynch Convertible Inv Grade	1.60%	4.13%	1.60%	11.80%	6.60%	6.09%	52.47%	5.91%
ML Convt Inv Grade BDS (Inc Mandatory)	1.93%	4.29%	1.93%	12.39%	-1.60%	1.19%	25.28%	3.12%

Expressed in USD
Past performance is not indicative of future results.

MacKayShields

THE NORTHERN TRUST COMPANY
801 S. CANAL
CHICAGO, IL. 60675
SECURITIES LENDING DIVISION C-1S

010000237 BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM SUMMARY EARNINGS STATEMENT CURRENCY: USD

BILLING DATE: 02/04/2011
BILLING PERIOD: 01/01/2011 - 01/31/2011

	US FIXED	US EQUITY	GLOBAL FIXED	GLOBAL EQUITY	TOTAL
ACCOUNT NUM.: BYC03					
ACCOUNT NAME: BAYCO- BARINGS					
OPEN CASH	0.00	0.00	0.00	212.63	212.63
TERM CASH	0.00	0.00	0.00	0.00	0.00
NON CASH	0.00	0.00	0.00	34.51	34.51
DEAL STOCKS	0.00	0.00	0.00	0.00	0.00
GROSS EARNINGS	0.00	0.00	0.00	247.14	247.14
TOTAL REBATES	0.00	0.00	0.00	199.47-	199.47-
COMMISSIONS	0.00	0.00	0.00	0.00	0.00
CLIENT EARNINGS	0.00	0.00	0.00	446.61	446.61
BANK FEES	0.00	0.00	0.00	178.58	178.58
NET INCOME	0.00	0.00	0.00	268.03	268.03
ACCOUNT NUM.: 1799220					
ACCOUNT NAME: *TNT-LDN-BYC03-BAYCO-BARING-SL					
OPEN CASH	0.00	0.00	0.00	75.33	75.33
TERM CASH	0.00	0.00	0.00	0.00	0.00
NON CASH	0.00	0.00	0.00	0.00	0.00
DEAL STOCKS	0.00	0.00	0.00	0.00	0.00
GROSS EARNINGS	0.00	0.00	0.00	75.33	75.33
TOTAL REBATES	0.00	0.00	0.00	20.46	20.46
COMMISSIONS	0.00	0.00	0.00	0.00	0.00
CLIENT EARNINGS	0.00	0.00	0.00	54.87	54.87
BANK FEES	0.00	0.00	0.00	21.83	21.83
NET INCOME	0.00	0.00	0.00	33.04	33.04
ACCOUNT NUM.: 2608694					
ACCOUNT NAME: *BAYCO - COLUMBIA MANAGEMENT					
OPEN CASH	0.00	1,017.83	0.00	0.00	1,017.83
TERM CASH	0.00	0.00	0.00	0.00	0.00
NON CASH	0.00	0.00	0.00	0.00	0.00
DEAL STOCKS	0.00	0.00	0.00	0.00	0.00
GROSS EARNINGS	0.00	1,017.83	0.00	0.00	1,017.83
TOTAL REBATES	0.00	278.58	0.00	0.00	278.58
COMMISSIONS	0.00	0.00	0.00	0.00	0.00
CLIENT EARNINGS	0.00	739.25	0.00	0.00	739.25
BANK FEES	0.00	295.52	0.00	0.00	295.52
NET INCOME	0.00	443.73	0.00	0.00	443.73

44

010000237 BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM   SUMMARY EARNINGS STATEMENT   CURRENCY: USD   PAGE 2

ACCOUNT NUM.: 2618668
ACCOUNT NAME: *BAYCO - BAIRD -SL

	US FIXED	US EQUITY	GLOBAL FIXED	GLOBAL EQUITY	TOTAL
OPEN CASH	1,660.03	0.00	0.00	0.00	1,660.03
TERM CASH	0.00	0.00	0.00	0.00	0.00
NON CASH	0.00	0.00	0.00	0.00	0.00
DEAL STOCKS	0.00	0.00	0.00	0.00	0.00
GROSS EARNINGS	1,660.03	0.00	0.00	0.00	1,660.03
TOTAL REBATES	1,028.48	0.00	0.00	0.00	1,028.48
COMMISSIONS	0.00	0.00	0.00	0.00	0.00
CLIENT EARNINGS	631.55	0.00	0.00	0.00	631.55
BANK FEES	252.54	0.00	0.00	0.00	252.54
NET INCOME	379.01	0.00	0.00	0.00	379.01

ACCOUNT NUM.: 2620611
ACCOUNT NAME: *BAYCO - MARVIN & PALMER -SL

	US FIXED	US EQUITY	GLOBAL FIXED	GLOBAL EQUITY	TOTAL
OPEN CASH	0.00	1,173.27	0.00	31.59	1,204.86
TERM CASH	0.00	0.00	0.00	0.00	0.00
NON CASH	0.00	0.00	0.00	0.00	0.00
DEAL STOCKS	0.00	0.00	0.00	0.00	0.00
GROSS EARNINGS	0.00	1,173.27	0.00	31.59	1,204.86
TOTAL REBATES	0.00	347.44	0.00	8.60	356.04
COMMISSIONS	0.00	0.00	0.00	0.00	0.00
CLIENT EARNINGS	0.00	825.83	0.00	22.99	848.82
BANK FEES	0.00	330.08	0.00	9.16	339.24
NET INCOME	0.00	495.75	0.00	13.83	509.58

ACCOUNT NUM.: 2622490
ACCOUNT NAME: *BAYCO - MACKAY SHIELDS -SL

	US FIXED	US EQUITY	GLOBAL FIXED	GLOBAL EQUITY	TOTAL
OPEN CASH	1,598.38	206.20	335.28	0.00	2,139.86
TERM CASH	0.00	0.00	0.00	0.00	0.00
NON CASH	0.00	0.00	0.00	0.00	0.00
DEAL STOCKS	0.00	0.00	0.00	0.00	0.00
GROSS EARNINGS	1,598.38	206.20	335.28	0.00	2,139.86
TOTAL REBATES	468.87-	95.86-	47.10-	0.00	611.83-
COMMISSIONS	0.00	0.00	0.00	0.00	0.00
CLIENT EARNINGS	2,067.25	302.06	382.38	0.00	2,751.69
BANK FEES	826.63	120.81	152.91	0.00	1,100.35
NET INCOME	1,240.62	181.25	229.47	0.00	1,651.34

45

THE NORTHERN TRUST COMPANY

010000237 BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM SUMMARY EARNINGS STATEMENT CURRENCY: USD PAGE 3

	US FIXED	US EQUITY	GLOBAL FIXED	GLOBAL EQUITY	TOTAL
ACCOUNT NUM.: 2622536					
ACCOUNT NAME: *BAYCO - HOTCHKIS & WILEY -SL					
OPEN CASH	0.00	1,903.63	0.00	1.52	1,905.15
TERM CASH	0.00	0.00	0.00	0.00	0.00
NON CASH	0.00	0.00	0.00	0.00	0.00
DEAL STOCKS	0.00	0.00	0.00	0.00	0.00
GROSS EARNINGS	0.00	1,903.63	0.00	1.52	1,905.15
TOTAL REBATES	0.00	575.14	0.00	0.50	575.64
COMMISSIONS	0.00	0.00	0.00	0.00	0.00
CLIENT EARNINGS	0.00	1,328.49	0.00	1.02	1,329.51
BANK FEES	0.00	529.89	0.00	0.40	530.29
NET INCOME	0.00	798.60	0.00	0.62	799.22
ACCOUNT NUM.: 2624493					
ACCOUNT NAME: *BAYCO - WENTWORTH -SL					
OPEN CASH	0.00	699.12	0.00	372.12	1,071.24
TERM CASH	0.00	0.00	0.00	0.00	0.00
NON CASH	0.00	10.59	0.00	64.66	75.25
DEAL STOCKS	0.00	0.00	0.00	0.00	0.00
GROSS EARNINGS	0.00	709.71	0.00	436.78	1,146.49
TOTAL REBATES	0.00	196.67	0.00	100.53	297.20
COMMISSIONS	0.00	0.00	0.00	0.00	0.00
CLIENT EARNINGS	0.00	513.04	0.00	336.25	849.29
BANK FEES	0.00	205.15	0.00	134.43	339.58
NET INCOME	0.00	307.89	0.00	201.82	509.71
ACCOUNT NUM.: 2639956					
ACCOUNT NAME: *BAYCO - DENVER INV ADV -SL					
OPEN CASH	0.00	1,834.53	0.00	129.79	1,964.32
TERM CASH	0.00	0.00	0.00	0.00	0.00
NON CASH	0.00	0.00	0.00	0.00	0.00
DEAL STOCKS	0.00	0.00	0.00	0.00	0.00
GROSS EARNINGS	0.00	1,834.53	0.00	129.79	1,964.32
TOTAL REBATES	0.00	501.07	0.00	35.67	536.74
COMMISSIONS	0.00	0.00	0.00	0.00	0.00
CLIENT EARNINGS	0.00	1,333.46	0.00	94.12	1,427.58
BANK FEES	0.00	532.71	0.00	37.62	570.33
NET INCOME	0.00	800.75	0.00	56.50	857.25

46

010000237 BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM SUMMARY EARNINGS STATEMENT CURRENCY: USD PAGE 4

ACCOUNT NUM.: 2641401
ACCOUNT NAME: *BAYCO - LOOMIS SAYLES -SL

	US FIXED	US EQUITY	GLOBAL FIXED	GLOBAL EQUITY	TOTAL
OPEN CASH	1,406.74	0.00	490.31	0.00	1,897.05
TERM CASH	0.00	0.00	0.00	0.00	0.00
NON CASH	0.00	0.00	0.00	0.00	0.00
DEAL STOCKS	0.00	0.00	0.00	0.00	0.00
GROSS EARNINGS	1,406.74	0.00	490.31	0.00	1,897.05
TOTAL REBATES	428.32	0.00	139.70	0.00	568.02
COMMISSIONS	0.00	0.00	0.00	0.00	0.00
CLIENT EARNINGS	978.42	0.00	350.61	0.00	1,329.03
BANK FEES	390.98	0.00	140.13	0.00	531.11
NET INCOME	587.44	0.00	210.48	0.00	797.92

ACCOUNT NUM.: 2653308
ACCOUNT NAME: *BAYCO - INTEGRITY -SL

	US FIXED	US EQUITY	GLOBAL FIXED	GLOBAL EQUITY	TOTAL
OPEN CASH	0.00	1,637.03	0.00	54.54	1,691.57
TERM CASH	0.00	0.00	0.00	0.00	0.00
NON CASH	0.00	0.00	0.00	0.00	0.00
DEAL STOCKS	0.00	0.00	0.00	0.00	0.00
GROSS EARNINGS	0.00	1,637.03	0.00	54.54	1,691.57
TOTAL REBATES	0.00	480.56	0.00	15.23	495.79
COMMISSIONS	0.00	0.00	0.00	0.00	0.00
CLIENT EARNINGS	0.00	1,156.47	0.00	39.31	1,195.78
BANK FEES	0.00	461.51	0.00	15.71	477.22
NET INCOME	0.00	694.96	0.00	23.60	718.56

ACCOUNT NUM.: 2663296
ACCOUNT NAME: *BAYCO - CORNERSTONE REALES-SL

	US FIXED	US EQUITY	GLOBAL FIXED	GLOBAL EQUITY	TOTAL
OPEN CASH	0.00	1,333.40	0.00	0.00	1,333.40
TERM CASH	0.00	0.00	0.00	0.00	0.00
NON CASH	0.00	0.62	0.00	0.00	0.62
DEAL STOCKS	0.00	0.00	0.00	0.00	0.00
GROSS EARNINGS	0.00	1,334.02	0.00	0.00	1,334.02
TOTAL REBATES	0.00	387.73	0.00	0.00	387.73
COMMISSIONS	0.00	0.00	0.00	0.00	0.00
CLIENT EARNINGS	0.00	946.29	0.00	0.00	946.29
BANK FEES	0.00	376.91	0.00	0.00	376.91
NET INCOME	0.00	569.38	0.00	0.00	569.38

47

010000237 BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM   SUMMARY EARNINGS STATEMENT   CURRENCY: USD   PAGE 5

THE NORTHERN TRUST COMPANY

ACCOUNT NUM.: 2695063
ACCOUNT NAME: *BAYCO - EAGLE ASSET -SL

	US FIXED	US EQUITY	GLOBAL FIXED	GLOBAL EQUITY	TOTAL
OPEN CASH	0.00	1,770.14	0.00	22.66	1,792.80
TERM CASH	0.00	0.00	0.00	0.00	0.00
NON CASH	0.00	0.00	0.00	17.70	17.70
DEAL STOCKS	0.00	0.00	0.00	0.00	0.00
GROSS EARNINGS	0.00	1,770.14	0.00	40.36	1,810.50
TOTAL REBATES	0.00	51.22-	0.00	5.91	45.31-
COMMISSIONS	0.00	0.00	0.00	0.00	0.00
CLIENT EARNINGS	0.00	1,821.36	0.00	34.45	1,855.81
BANK FEES	0.00	726.75	0.00	13.72	740.47
NET INCOME	0.00	1,094.61	0.00	20.73	1,115.34

GRAND TOTAL

	US FIXED	US EQUITY	GLOBAL FIXED	GLOBAL EQUITY	TOTAL
OPEN CASH	4,665.15	11,575.15	825.59	900.18	17,966.07
TERM CASH	0.00	0.00	0.00	0.00	0.00
NON CASH	0.00	11.21	0.00	116.87	128.08
DEAL STOCKS	0.00	0.00	0.00	0.00	0.00
GROSS EARNINGS	4,665.15	11,586.36	825.59	1,017.05	18,094.15
TOTAL REBATES	987.93	2,620.11	92.60	12.57-	3,688.07
COMMISSIONS	0.00	0.00	0.00	0.00	0.00
CLIENT EARNINGS	3,677.22	8,966.25	732.99	1,029.62	14,406.08
BANK FEES	1,470.15	3,579.33	293.04	411.45	5,753.97
NET INCOME	2,207.07	5,386.92	439.95	618.17	8,652.11

3/2/2011

REFUNDS: FOR THE MONTH ENDING FEBRUARY 28, 2011

EMPLOYEE/BENEFICIAR	CONTRIBUTIONS REFUNDED	PROCESSED ON	DEPARTMENT TERMINATED	TERMINATION DATE
Kaplaniak, Ruthann	4,147.08	02/10/11	BABH	12/20/10
Stewart, Joseph	1,216.08	02/25/11	BABH	01/10/11
Shepard, Lindsay	1,300.81	02/25/11	BABH	01/15/11
TOTAL REFUNDS:	6,663.97			

RETIREE	CONTRIBUTIONS TRANSFERRED	DEPARTMENT	EFFECTIVE DATE	
Burns, Karen	28,697.10	Animal Control	01/29/11	
Maida, Carole	61,021.46	Central Dispat	01/12/11	
Evans, Carol	9,231.36	BMCF	01/22/11	
Tubman, Douglas	14,242.26	Def - BMCF	03/11/11	

BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM
BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

BAY COUNTY BUILDING
515 CENTER AVENUE, SUITE 706
BAY CITY, MICHIGAN 48708-5128

THOMAS L. HICKNER
Bay County Executive

Add for M/Mgr on watch list

June 1, 2010

ADMINISTRATIVE STAFF
Sue Gansser
Danean Wright
(989) 895-4030
TDD (989) 895-4049
FAX (989) 895-4039

Mr. Jay Middleton
Portfolio Manager - Principal
Marvin & Palmer Associates, Inc.
1201 N. Market Street, Suite 2300
Wilmington DE 19801-1165

Dear Mr. Middleton:

Based on the quarter ending March 31, 2010 Investment Performance Analysis report prepared and presented by Becker, Burke Associates, it was noted that the investment performance of Marvin & Palmer Associates, Inc., for the three (3) year period ended March 31, 2010, has not met the agreed to long term performance objectives.

For the reason stated above, the Board of Trustees have decided to place Marvin & Palmer Associates, Inc. "on watch" for a period of one year from the date of this missive. The Trustees expect improvements in your performance so as to progress towards satisfying your stipulated long term performance objectives (Russell 1000 Growth Index plus 1.00% and a top third ranking within your peer group). After one year, the Trustees will re-evaluate the "on watch" status of Marvin & Palmer Associates.

Please contact me or Rick Potter from Becker, Burke Associates if you would like to discuss.

Sincerely,

Tim Quinn
Interim Finance Officer/Secretary

c: Board of Trustees, BCERS
Marty Fitzhugh, Corporation Counsel
Rick Potter, Becker, Burke Associates

65 50

BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM
BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION
BAY COUNTY BUILDING
515 CENTER AVENUE, SUITE 706
BAY CITY, MICHIGAN 48708-5128

December 17, 2009

Mr. Richard L. Potter
Becker, Burke Associates Inc.
225 West Wacker Drive
Suite 400
Chicago, IL 60606

Dear Rick,

I am writing this letter to serve as official notification that, on Tuesday, December 8, 2009 the Bay County Employees' Retirement System (BCERS) Board of Trustees voted to renew the consulting services agreement between the BCERS and Becker, Burke Associates, Inc. for one additional year as provided in the agreement, Section 4. Term.

Regards,

Mike

Michael J. Regulski CGFM
Consultant, BCERS/VEBA

C: Board of Trustees, BCERS
Marty Fitzhugh, Corporation Counsel
Sue Gansser, Payroll/Benefits Supervisor
Danean Wright, Staff Accountant BCERS

BAY COUNTY HEALTH DEPARTMENT

Kirk H. Herrick, D.O., Medical Director
1200 Washington Avenue
Bay City, Michigan 48708

989-895-2062

Fax: 989-895-4014

Re: Keith Reinhardt

Danean Wright
Retirement Accountant
Bay County Employees' Retirement System
515 Center Avenue
Bay City, Michigan 40708
March 2, 2011

Dear Ms. Wright:

I have reviewed the medical records of Keith Reinhardt and in my professional opinion feel his medical condition is very severe. He has had multiple recurrent episodes of complications due to his disease processes. I therefore do not feel he could ever safely return to any type of gainful employment. I feel he is totally and permanently disabled.

Sincerely,

Kirk H. Herrick, D.O.

Kirk H. Herrick, D.O.

BAY COUNTY HEALTH DEPARTMENT

Kirk H. Herrick, D.O., Medical Director
1200 Washington Avenue
Bay City, Michigan 48708

989-895-2062

Fax: 989-895-4014

Re: Lisa Lauria

Danean Wright
Retirement Accountant
Bay County Employees' Retirement System
515 Center Avenue
Bay City, Michigan 40708
March 2, 2011

Dear Ms. Wright:

I have reviewed the medical records of Lisa Lauria and also her job description as a certified nursing assistant. In view of her diagnosis and inability to perform work assignments on a regular basis in the past year, due to her symptoms caused by this illness, I do not feel she can engage in any type of gainful employment. In my professional opinion she is totally and permanently disabled.

Sincerely,

Kirk H. Herrick, D.O.

PERSONAL & CONFIDENTIAL

TO:	Ms. Danean Wright Retirement Accountant
FROM:	Cathy Nagy, EA, FSA, MAAA & W. James Koss, EA, ASA, MAAA, Actuaries Gabriel, Roeder, Smith & Company
SUBJECT:	Retirement Incentive Program Affecting Certain Active Members of the Bay County Employees' Retirement System
DATE:	February 28, 2011

A. Background

Submitted in this report are the results of actuarial valuations to determine the cost impact on the Bay County Employees' Retirement System of possible retirement benefit changes for certain Bay County employees. The date of the valuations was July 31, 2011.

The signing actuaries are Members of the American Academy of Actuaries (MAAA) as indicated, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

The valuations were based upon the data provided by the County including data submitted on behalf of the Retirement Board (as of December 31, 2009). The multiplier for each division was the same multiplier that we disclosed in the December 31, 2009 annual valuation of the Retirement System. Except as noted, the actuarial assumptions and methods were the same as those used in that valuation. This data is summarized on the following page.

This report shows the potential increase in the present value of future Retirement System benefits as a result of the proposed program and the potential reduction in active member payroll if 100 percent of the affected employees elect the proposed Retirement Incentive Program and retire on July 31, 2011.

B. Data

We used the list of eligible members and associated data provided by the County for each of the Groups that are included in the study. These groups are summarized below.

Employment Group	Number of Eligible Employees
B.C.A.M.P.S.	25
USW General Group – Full Time	34
Elected Officials & Department Heads Group	6
Attorney AFSCME Group	1
General County Group	13
District Court AFSCME	3
	82

C. Valuation Results

The following schedules show the present value of future benefits under both the current and proposed benefits for the potential program participants enumerated above. The change in the present value of future benefits represents the potential increase in ultimate cost to the Retirement System as of the valuation date assuming all eligible members elect the window and retire as of July 31, 2011. In addition, we have assumed that none of these individuals would be replaced by new hires.

Bay County Employees' Retirement System
Supplemental Actuarial Valuation
as of July 31, 2011
B.C.A.M.P.S.
- - - Retirement Incentive Program - - -

Present Provision: Members may retire with unreduced pensions upon normal retirement eligibility at age 55 with 30 years of service or at age 60 with 8 years of service. Members may retire with reduced pensions at age 55 with 8 years of service.

Proposed Provisions:

- Members must have eight or more years of credited service as of their date of retirement or no later than the end of the window period.
- Members must be at least 52 years of age as of their date of retirement or no later than the end of the window period.
- To provide an additional three (3) years of age or service or any combination of additional age or service up to three (3) years which will result in a normal retirement with an unreduced pension. All program participants will receive this benefit even if the employee is eligible to retire without the enhanced age/service.
- Members will retire with a Normal (unreduced) retirement benefit.
- Employees who participate in the retirement incentive program must retire by July 31, 2011.

Results of Actuarial Valuation

	Before Retirement Incentive Program	After Retirement Incentive Program	Change
Eligible Member Projected Payroll as of July 31, 2011	$ 1,356,721	$ 0	$(1,356,721)
Present Value of Future Benefits	6,681,513	7,614,769	933,256

The results above show the change in the Present Value of Future Benefits as a result of the Retirement Incentive Program. This represents the increase in the total liability of the System as a result of the Incentive Program, regardless of how that increase is financed. Financing the change will occur over a number of years as an amortization of the increase in the Unfunded Accrued Liability offset, in part, by a reduction in Normal Cost. The annual financing cost will depend on the length of the amortization period. Attached, for your convenience, is the GFOA policy opinion on Early Retirement Incentives.

Bay County Employees' Retirement System
Supplemental Actuarial Valuation
as of July 31, 2011
USW General – FULL TIME
- - - Retirement Incentive Program - - -

Present Provision: Members may retire with unreduced pensions upon normal retirement eligibility at age 55 with 30 years of service or at age 60 with 8 years of service. Members may retire with reduced pensions at age 55 with 8 years of service.

Proposed Provisions:

- Members must have eight or more years of credited service as of their date of retirement or no later than the end of the window period.
- Members must be at least 52 years of age as of their date of retirement or no later than the end of the window period.
- To provide an additional three (3) years of age or service or any combination of additional age or service up to three (3) years which will result in a normal retirement with an unreduced pension. All program participants will receive this benefit even if the employee is eligible to retire without the enhanced age/service.
- Members will retire with a Normal (unreduced) retirement benefit.
- Employees who participate in the retirement incentive program must retire by July 31, 2011.

RESULTS OF ACTUARIAL VALUATION

	Before Retirement Incentive Program	After Retirement Incentive Program	Change
Eligible Member Projected Payroll as of July 31, 2011	$ 1,258,745	$ 0	$(1,258,745)
Present Value of Future Benefits	5,762,317	6,564,817	802,500

The results above show the change in the Present Value of Future Benefits as a result of the Retirement Incentive Program. This represents the increase in the total liability of the System as a result of the Incentive Program, regardless of how that increase is financed. Financing the change will occur over a number of years as an amortization of the increase in the Unfunded Accrued Liability offset, in part, by a reduction in Normal Cost. The annual financing cost will depend on the length of the amortization period. Attached, for your convenience, is the GFOA policy opinion on Early Retirement Incentives.

Bay County Employees' Retirement System
Supplemental Actuarial Valuation
as of July 31, 2011
Elected Officials and Department Heads
- - - Retirement Incentive Program - - -

Present Provision: Members may retire with unreduced pensions upon normal retirement eligibility at age 55 with 30 years of service or at age 60 with 8 years of service. Members may retire with reduced pensions at age 55 with 8 years of service.

Proposed Provisions:

- Members must have eight or more years of credited service as of their date of retirement or no later than the end of the window period.
- Members must be at least 52 years of age as of their date of retirement or no later than the end of the window period.
- To provide an additional three (3) years of age or service or any combination of additional age or service up to three (3) years which will result in a normal retirement with an unreduced pension. All program participants will receive this benefit even if the employee is eligible to retire without the enhanced age/service.
- Members will retire with a Normal (unreduced) retirement benefit.
- Employees who participate in the retirement incentive program must retire by July 31, 2011.

RESULTS OF ACTUARIAL VALUATION

	Before Retirement Incentive Program	After Retirement Incentive Program	Change
Eligible Member Projected Payroll as of July 31, 2011	$ 472,502	$ 0	$(472,502)
Present Value of Future Benefits	2,564,783	3,017,666	452,883

The results above show the change in the Present Value of Future Benefits as a result of the Retirement Incentive Program. This represents the increase in the total liability of the System as a result of the Incentive Program, regardless of how that increase is financed. Financing the change will occur over a number of years as an amortization of the increase in the Unfunded Accrued Liability offset, in part, by a reduction in Normal Cost. The annual financing cost will depend on the length of the amortization period. Attached, for your convenience, is the GFOA policy opinion on Early Retirement Incentives.

Bay County Employees' Retirement System
Supplemental Actuarial Valuation
as of July 31, 2011
Attorney AFSCME
- - - Retirement Incentive Program - - -

Present Provision: Members may retire with unreduced pensions upon normal retirement eligibility at age 55 with 30 years of service or at age 60 with 8 years of service. Members may retire with reduced pensions at age 55 with 8 years of service.

Proposed Provisions:

- Members must have eight or more years of credited service as of their date of retirement or no later than the end of the window period.
- Members must be at least 52 years of age as of their date of retirement or no later than the end of the window period.
- To provide an additional three (3) years of age or service or any combination of additional age or service up to three (3) years which will result in a normal retirement with an unreduced pension. All program participants will receive this benefit even if the employee is eligible to retire without the enhanced age/service.
- Members will retire with a Normal (unreduced) retirement benefit.
- Employees who participate in the retirement incentive program must retire by July 31, 2011.

RESULTS OF ACTUARIAL VALUATION

	Before Retirement Incentive Program	After Retirement Incentive Program	Change
Eligible Member Projected Payroll as of July 31, 2011	$ 76,119	$ 0	$(76,119)
Present Value of Future Benefits	398,563	465,787	67,224

The results above show the change in the Present Value of Future Benefits as a result of the Retirement Incentive Program. This represents the increase in the total liability of the System as a result of the Incentive Program, regardless of how that increase is financed. Financing the change will occur over a number of years as an amortization of the increase in the Unfunded Accrued Liability offset, in part, by a reduction in Normal Cost. The annual financing cost will depend on the length of the amortization period. Attached, for your convenience, is the GFOA policy opinion on Early Retirement Incentives.

Bay County Employees' Retirement System
Supplemental Actuarial Valuation
as of July 31, 2011
General County
- - - Retirement Incentive Program - - -

Present Provision: Members may retire with unreduced pensions upon normal retirement eligibility at age 55 with 30 years of service or at age 60 with 8 years of service. Members may retire with reduced pensions at age 55 with 8 years of service.

Proposed Provisions:

- Members must have eight or more years of credited service as of their date of retirement or no later than the end of the window period.
- Members must be at least 52 years of age as of their date of retirement or no later than the end of the window period.
- To provide an additional three (3) years of age or service or any combination of additional age or service up to three (3) years which will result in a normal retirement with an unreduced pension. All program participants will receive this benefit even if the employee is eligible to retire without the enhanced age/service.
- Members will retire with a Normal (unreduced) retirement benefit.
- Employees who participate in the retirement incentive program must retire by July 31, 2011.

RESULTS OF ACTUARIAL VALUATION

	Before Retirement Incentive Program	After Retirement Incentive Program	Change
Eligible Member Projected Payroll as of July 31, 2011	$ 731,929	$ 0	$(731,929)
Present Value of Future Benefits	3,311,805	3,798,843	487,038

The results above show the change in the Present Value of Future Benefits as a result of the Retirement Incentive Program. This represents the increase in the total liability of the System as a result of the Incentive Program, regardless of how that increase is financed. Financing the change will occur over a number of years as an amortization of the increase in the Unfunded Accrued Liability offset, in part, by a reduction in Normal Cost. The annual financing cost will depend on the length of the amortization period. Attached, for your convenience, is the GFOA policy opinion on Early Retirement Incentives.

Bay County Employees' Retirement System
Supplemental Actuarial Valuation
as of July 31, 2011
District Court AFSCME
- - - Retirement Incentive Program - - -

Present Provision: Members may retire with unreduced pensions upon normal retirement eligibility at age 55 with 30 years of service or at age 60 with 8 years of service. Members may retire with reduced pensions at age 55 with 8 years of service.

Proposed Provisions:

- Members must have eight or more years of credited service as of their date of retirement or no later than the end of the window period.
- Members must be at least 52 years of age as of their date of retirement or no later than the end of the window period.
- To provide an additional three (3) years of age or service or any combination of additional age or service up to three (3) years which will result in a normal retirement with an unreduced pension. All program participants will receive this benefit even if the employee is eligible to retire without the enhanced age/service.
- Members will retire with a Normal (unreduced) retirement benefit.
- Employees who participate in the retirement incentive program must retire by July 31, 2011.

RESULTS OF ACTUARIAL VALUATION

	Before Retirement Before Program	After Retirement Incentive Program	Change
Eligible Member Projected Payroll as of July 31, 2011	$ 113,134	$ 0	$(113,134)
Present Value of Future Benefits	657,682	782,545	124,863

The results above show the change in the Present Value of Future Benefits as a result of the Retirement Incentive Program. This represents the increase in the total liability of the System as a result of the Incentive Program, regardless of how that increase is financed. Financing the change will occur over a number of years as an amortization of the increase in the Unfunded Accrued Liability offset, in part, by a reduction in Normal Cost. The annual financing cost will depend on the length of the amortization period. Attached, for your convenience, is the GFOA policy opinion on Early Retirement Incentives.

D. Comments

Comment 1 — The calculations are based upon assumptions regarding future events, which may or may not materialize. They are also based upon present and proposed plan provisions that are outlined in the report. If you have reason to believe that the assumptions that were used are unreasonable, that the plan provisions are incorrectly described, that important plan provisions relevant to this proposal are not described, or that conditions have changed since the calculations were made, you should contact the authors of this report prior to relying on information in the report.

Comment 2 — The results in this report were based on information provided to the actuary by the County. The actuary is unaware of any additional information that would impact these results. If you have reason to believe that the information provided in this report is inaccurate, or is in any way incomplete, or if you need further information in order to make an informed decision on the subject matter of this report, please contact the author of the report prior to making such decision.

Comment 3 — No statement in this report is intended to be interpreted as a recommendation in favor of the changes, or in opposition to them.

Comment 4 — In the event that more than one plan change is being considered, it is very important to remember that the results of separate actuarial valuations cannot generally be added together to produce a correct estimate of the combined effect of all of the changes. The total can be considerably greater than the sum of the parts due to the interaction of various plan provisions with each other, and with the assumptions that must be used.

Comment 5 — The reader of this report should keep in mind that actuarial calculations are mathematical estimates based on current data and assumptions about future events (which may or may not materialize). Please note that actuarial calculations can and do vary from one valuation year to the next, sometimes significantly if the group valued is very small (less than 30 lives). As a result, the cost impact of a benefit change may fluctuate over time, as the demographics of the group changes.

Comment 6 — As indicated throughout the report, payroll shown for each employment group was valuation payroll provided for the December 31, 2009 annual valuation projected to July 31, 2011 using the payroll growth assumption of 4.0% per year. In addition, each individual included in the study was assumed to work full time through July 31, 2011. On this basis, service was projected from December 31, 2009 through July 31, 2011.

D. Comments (Concluded)

Comment 7 — The costs of the proposed retirement incentive program have been developed assuming that everyone who is eligible for the program will participate and retire on July 31, 2011. If fewer people choose to retire the cost impact will be somewhat smaller than shown in this report. Please be aware that the cost of the incentive program will vary for each individual member of the given employment groups. For example, if half of the eligible employees elected the program and retired, and these employees were the ones who would benefit most from the incentive, the cost would be significantly more than 50% of the cost shown in this report.

We have provided the potential increase in the present value of future retirement system benefits as a result of one hundred percent utilization of the incentive program. This increase represents the potential cost as of July 31, 2011 of the program if all eligible members retire on July 31, 2011 and if they are not replaced. In addition, we have shown the potential decrease in projected valuation payroll (as of July 31, 2011) if all eligible members retire.

Comment 8 — The results of this report only show the potential impact of the proposed benefits on the Bay County Employees' Retirement System. The County should consider other related issues before implementing the proposed incentive program such as:

- Potential payroll and active employee health care cost savings if the retiring members (Incentive Program users) are not replaced, or if they are (fully or partially) replaced with lower paid and/or younger employees.
- Potential additional costs as a result of providing retiree health care benefits for the retiring members at earlier ages.
- The potential cost impact of any other employee benefit programs or fringe benefits.
- Members with very long service would potentially receive no or minimal financial benefit from the proposed program due to the 75% of FAC maximum.
- The legal implications of such a program including compliance with Michigan Public Act 728 and the implementation of Plan amendments or employment contract language that includes the provisions of the proposed program.

APPENDIX

GFOA Recommended Practice

Evaluating Use of Early Retirement Incentives - 2004

Background. Governments occasionally offer early retirement incentives (ERIs)[1] to employees as a strategy to reduce payroll costs or stimulate short-term turnover among staff. ERIs are temporary, offered during a window that usually covers a period of months. They increase the economic value of the standard retirement benefit. Historically, ERIs rarely have succeeded, since costs are often greater than initially anticipated by the government offering the incentive, and savings are lower than projected.

Recommendation. GFOA recommends that governments exercise extreme caution if considering ERIs. Governments should take several actions prior to the decision to offer an ERI in terms of (1) goal-setting, (2) cost/benefit analysis, and (3) budgetary analysis. Governments should also develop an implementation plan.

1. Goal-Setting for ERIs

Governments should be explicit in setting documented goals for the ERI. Goals can be financial in nature, such as realizing permanent efficiencies in staffing or achieving budgetary objectives. ERIs can also be designed to achieve human resource goals, such as creating vacancies that allow for additional promotion opportunities and allowing management to bring in new staff. Any ERI goals should not conflict with other retirement plan goals (e.g., features to reduce turnover or increase retention).

An explicit statement of goals is needed to judge the ultimate success of the initiative and to develop performance measures. Further, having a statement of goals promotes transparency. Inappropriate goals such as rewarding a select group of staff should be explicitly rejected. Potential conflicts of interest among decision-makers who design an ERI should be monitored closely, since any self-dealing is costly and could harm the long-term credibility of the government entity.

2. Cost/benefit analysis

In judging whether an ERI should be offered, governments should assess the potential costs and benefits of ERI proposals, and the cost/benefit analysis should be linked to the goals of the ERI. For example, if a government sets a financial goal of obtaining long-term staffing efficiencies, then an independent cost/benefit analysis should determine whether the ERI will actually bring about such staffing efficiencies.

A cost/benefit analysis should be comprehensive. It should take into account direct and indirect impacts, such as the impact on the government for providing retiree health care and additional

[1] The scope of this recommended practice does not cover deferred retirement option plans (DROP) or partial lump-sum option plans (PLOP), which often promote employee retention. The CORBA Committee may address this issue separately.

contractor costs. In addition, it should take into account the effect upon both the plan sponsor and the pension fund (if the pension fund is a separate organization). Governments should retain an actuary to assist in conducting a cost/benefit analysis.

Material changes to the ERI proposal during the legislative process should trigger adjustments to the cost/benefit and budgetary analyses.

Regarding financially-driven ERIs, a cost/benefit analysis should compare long-term benefits and costs against the "default" scenario of a hiring freeze. Most financially-driven ERIs project financial benefits based on payroll savings related to staff departures. However, any such savings should be discounted, because a hiring freeze also creates payroll savings (owing to the normal rate of staff departures). Thus, the ERI benefit is limited to the marginal increase in staff departures attributable to the ERI. Governments that attribute all staff departures to an ERI would over-state the ERI benefit, thus distorting the cost/benefit analysis.

Financially-driven ERIs may also obtain savings by replacing highly compensated staff with lower-paid staff. Analysis of such ERIs must take into account the fact that newly hired staff tend to experience faster salary increases than other employees.

If early retirement incentives are offered, they should be offered very infrequently and without a predictable schedule to avoid the expectation that another ERI will be offered. Such an expectation would distort normal employee retirement patterns.

The incremental costs of an ERI should be amortized over a short-term payback period, such as three to five years. This payback period should match the period in which the savings are realized. To calculate the incremental costs of an ERI, governments should conduct an actuarial analysis that discloses the present value of the liabilities associated with an ERI. Governments that have over-funded pension plans should avoid allocating any actuarial surplus to finance the incremental costs of the ERI.

3. Budgetary considerations

In order to develop accurate budgetary estimates for the ERI, it is necessary to estimate the incremental cost of the ERI, which will vary according to the level of employee participation. Any budgetary analysis should project multiple scenarios for employee participation levels.

A budgetary analysis should be comprehensive. It should take into account direct and indirect impacts, such as the impact on the government for providing retiree health care and additional contractor costs.

Because a collective bargaining agreement may affect potential ERI costs and benefits, it should be reviewed prior to developing budgetary estimates.

4. Implementation considerations

If implementing an ERI, at a minimum, governments should take into account the following points:

- A communication plan is desirable to help employees understand the ERI in the context of overall retirement planning;
- It may be necessary to gain input from collective bargaining units;
- Governments should consider the impact upon service delivery after employees retire, with identification of critical personnel whose services must be maintained;
- The duration of the window should take into account the ability of retirement staff to manage retirement application workloads, among other factors; and
- Performance measures should be used to ensure ERI goals are met. For financially-driven ERIs, governments should track and report direct and indirect costs and benefits to determine if goals are met, such as for vacancies and contract costs.

References:

A Primer on Early Retirement Incentives, GFOA, 2004.

Approved by the GFOA Executive Board, October 15, 2004.

BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM
BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

BAY COUNTY BUILDING
515 CENTER AVENUE, SUITE 706
BAY CITY, MICHIGAN 48708-5128

March 3, 2011

Bay County Employees' Retirement System Board of Trustees
Bay City, Michigan 48708

Dear Trustees:

Please consider this letter as my request for approval to purchase new recording equipment to serve the Board of Trustees.

Attached you will find information regarding a digital recording system by Philips. I have talked with Gregg Sauve, Vice President at Dictating Machine Service, Saginaw, Michigan regarding this equipment. Mr. Sauve believes this equipment would best suit the needs of a group our size, and the size of our meeting space.

Dictating Machine Service has been in business since 1960 and has served the needs of Bay County Government for well over twenty years. They have provided the recording systems for the Courts as well as printers and fax machines for various offices. Since they are local, they are able to provide immediate service should problems occur.

The Philips professional recording system uses a SD memory card and comes with software to transfer this information to a PC. This would eliminate the problem of tape malfunctions that we are experiencing with our current equipment, and I believe would also cut down on the time required to listen and transcribe from tapes.

The quote provided by Mr. Sauve for the recording system, plus the transcribing system is approximately $1,400.00.

Respectfully,

Danean Wright

Danean Wright
Retirement Administrator/Accountant

Attachment: Philips digital dictation system

/nw